



Energy Secretary James B. Edwards speaking in London.

### Edwards Says Saudis Accept U.S. Stockpile

By Joseph Fitchett  
*Washington Post Service*

LONDON — As the Reagan administration fills the U.S. strategic oil reserve with imports from the soft world oil market, Saudi Arabia has dropped its opposition to the American oil stockpile designed as a buffer during emergencies, Energy Secretary James B. Edwards said Tuesday.

Mr. Edwards said Saudi Arabia's oil minister, Sheikh Ahmed Zaki Yamani, "did not press any vigorous opposition" to the oil reserve in a conversation between the two men Monday in London. Both were attending a meeting of officials and businessmen involved in energy policy.

The strategic reserve, which ultimately is to contain enough oil to replace U.S. imports for nearly six months, would be used in oil-sharing plans among the United States and its allies during a cutoff of supplies.

The stockpile is also intended to prevent temporary shortages from creating a panic and driving up prices, Mr. Edwards said at the meeting Monday.

Mr. Edwards said the administration was looking at ways of giving oil companies tax incentives to help them maintain oil stocks at comfortable levels. Reuters reported from London, "He said he did not expect privately held U.S. stocks to decline below what he regarded as adequate levels this winter, despite a stock downturn under way because of high storage costs."

In the past, Saudi Arabia has contended that the U.S. policy was taking advantage of high Saudi oil production to divert oil into the strategic reserve. Some militant countries in the Organization of Petroleum Exporting Countries regard the stockpile as a threat to their ability to raise prices in a supply crunch.

But Mr. Edwards said "it doesn't seem to be a real issue" with Sheikh Yamani.

### Haig Ends Talks With Gromyko

#### No Progress Seen In N.Y. Meeting

By Don Oberdorfer  
*Washington Post Service*

NEW YORK — Secretary of State Alexander M. Haig Jr. and Foreign Minister Andrei A. Gromyko have completed the highest-level round of U.S.-Soviet talks of the Reagan administration, with agreement on continuing their dialogue but apparently on very little else.

The five-hour session Monday night, like a four-hour meeting last Wednesday, was primarily a head-to-head meeting of the two ministers without advisers. When it was over, State Department spokesman Dean Fischer said the talks had been "frank, businesslike and serious," but he discouraged any suggestion that substantive progress had been made.

Mr. Fischer did announce that Mr. Haig and Mr. Gromyko planned to continue their talks early next year, perhaps in Geneva.

[The Associated Press reported that Mr. Haig, during an appearance on television, was asked if the talks had led to a reduction of tensions. He replied, "No, I don't think so. I think the period ahead will have to reflect whether or not these discussions will have made a substantial contribution," adding that there were still "a number of issues that divide us."

[The possibility of U.S.-Soviet strategic arms limitations was discussed, Mr. Haig said, but he declined to speculate whether there might be formal SALT negotiations next year. He also indicated that he made clear to Mr. Gromyko during both meetings that Soviet intervention in Poland would have "profound and long-lasting consequences."

No Invitation

Mr. Gromyko is not being invited to the White House as he was under previous administrations during his annual United Nations visit. The thinking behind such an omission, according to sources, is partly to let Mr. Gromyko know that "business as usual" does not prevail in the Reagan government.

The tentative selection of the Geneva site also means that Mr. Haig is not being invited to Moscow. Thus, the perception that the two leaders have of one another is limited, at the moment, to the unusually lengthy and secretive discussions between their foreign ministers here in these opening weeks of the UN General Assembly.

Of the session Monday at the Soviet Mission to the UN, all but the final half-hour was a private session.

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Nightstick-wielding policemen pushed back a crowd of Ayatollah Ruhollah Khomeini supporters during a demonstration in New York after an officer was attacked and beaten to the ground.

### Clergyman Is Slain, but Khomeini Says Assassinations 'Revive Islam'

From Agency Dispatches

BEIRUT — Another high Iranian cleric was slain Tuesday and Ayatollah Ruhollah Khomeini, leader of the revolutionary government, said the wave of assassinations served to "irrigate the Islamic Republic."

Abdolkarim Hashemi-Nejad, a member of parliament and secretary-general of the ruling Islamic Republican Party in northeastern Mashhad, was killed Tuesday by a member of the Mujahaddin leftist guerrilla group who walked up to him after a lecture in Mashhad and set off a hand grenade, the news agency Pars said. His attacker was killed in the blast, it said.

It was also reported that a total of 156 dissidents had been executed Sunday night and Monday.

Street Demonstrators

On the war front, Iran said Tuesday it was the 7th Iraqi Army Division that was routed in the surprise offensive that broke Iraq's 11-month-old siege of the Iranian oil-refining city of Abadan. Iraq admits to withdrawing to the west bank of the Karun River bordering Abadan but says its troops could return at any time.

Mr. Hashemi-Nejad was the 107th prominent victim of assassinations since the downfall of President Abolhassan Bani-Sadr in June. Pars said that demonstrators surged through the streets of Mashhad demanding revenge.

Reacting to Mr. Hashemi-Nejad's death in a speech to clergy broadcast by Tehran Radio, Ayatollah Khomeini said "If their aim is to undermine Islam, these assassinations revive Islam; if their goal is to destroy the Islamic Republic, these assassinations irrigate the Islamic Republic."

The killing occurred as the party was busy campaigning for Friday's presidential and parliamentary polls, in which Iranians will choose a successor to slain President Mohammed Ali Rajai.

As the number of executions increased, Tehran's revolutionary prosecutor, Assadollah Lajvardi, said 9-year-old children could be executed if proven "grown enough," but denied that anybody under 17 had ever been put to death by the revolutionary government.

Mr. Lajvardi denied a charge by the leader of the guerrillas, Masoud Rajavi, who lives in France, that children were being executed at Evin prison, saying the youngest so far was 17 and had been involved in opposition activities.

"Of course even a 9-year-old can be executed if it was proved to the court that he or she is grown enough," Mr. Lajvardi said when asked of reports that girls that young had been shot. "But such a case has not happened yet."

He said in a telephone interview that 60 other dissidents were executed in the hours after street battles between Mujahaddin guerrillas and Revolutionary Guards Sunday.

An official at Evin prison said Tuesday that another 43 dissidents were executed.

Col. Javadi made the claim in a victory speech he delivered at the town of Shadegan, 60 kilometers (37 miles) north of Abadan, where 1,500 Iraqi prisoners of war were paraded before the public, Pars said.

"Our common enemy is Israel," Col. Javadi was quoted as saying in an address to the Iraqi captives after the parade. "I hope that we can fight one day shoulder to shoulder, under the leadership of Imam Khomeini, to liberate Jerusalem."

Summary executions reported since the ouster of Mr. Bani-Sadr in June now total 1,369.

Pars quoted Col. Shahabuddin Javadi, commander of the Iranian Army's Khrosan 77th Division, as saying the reported routing of the Iraqi 7th Division was completed on Sunday, when the two major highways to Abadan were recaptured.

Major United Nations rights body has declined to put Iran on its blacklist. Page 2.

### Walesa Chided; Strains Appear At Union Rally

By John Darnton  
*New York Times Service*

GDANSK — Lech Walesa and other leaders of the Solidarity union were reprimanded by the union Tuesday for acting undemocratically in reaching a compromise with the government earlier this month over the issue of workers' self-management.

The tone of the reprimand was mild, and it was partly offset by another vote at the union's national congress that supported the actions of the leadership during the last year.

Nonetheless, the move pointed up growing dissatisfaction in the middle ranks of Solidarity and confirmed that Mr. Walesa, whose leadership is still above challenge, has offended some chapter leaders with his assertive style.

[Solidarity Tuesday prepared a draft proposal assuring the Soviet Union that it intended to respect Europe's post-World War II balance of power, Reuters reported. The undertaking was written into a program scheduled for debate during the congress.

"Our national consciousness dictates that we respect the balance of forces formed after World War II in Europe and our country's place in that balance," the draft program said. "We want to carry out all changes in the country in a way that will not damage our alliances with the Soviet Union."

Unilateral Decisions

Elections to the chairmanship will be held later in the congress. No one here predicts that Mr. Walesa can possibly lose, but there is growing criticism of him for making decisions unilaterally, and there are increasing strains and signs of competition within the leadership.

Mr. Walesa appeared to recognize this in an impassioned speech of self-defense Tuesday when he peered out over the vast hall of the Olivia sports arena and exclaimed: "What happens here? So many people who were fighting side by side so beautifully are now quarreling."

Mr. Walesa might be handed a militant program that he could not live with, or, conceivably, might threaten to resign if the congress went against his wishes.

Mr. Walesa still has an almost magical hold over the delegates. There is a noisy stir when he walks into the hall, and he is the only speaker who is not alerted by the congress chairman when his five minutes are up. Tuesday was Mr. Walesa's 38th birthday, and the

proceedings were interrupted numerous times by delegations of girl scouts or workers that came in to present him with flowers and at one point even in the aisle.

During his speech he admitted that there had been "shortcomings" in the union's decision-making procedures, but he ascribed them to the exigencies of difficult times. "Ten million people organized themselves, but after the strike was over, they went home," he said. "Only a few of us remained to think what to do next."

"So we took decisions. We had no money, no bank account, no real authority like the state. OK, so it's true a lot of money was stolen and a lot of machines were lost. I always thought you would understand the situation."

"Dictatorship"

It had been, he insisted, a time when a "little bit of dictatorship" was needed to make the tough decisions. But now that there were union statutes and would soon be a full union program, things would be different, he said.

He suggested that his leadership was necessary to balance off the contending forces inside and outside Solidarity. "As long as I am head of this movement, nobody — the church, the government, KOR, the party — nobody will take over this movement. After the strike, I came to the conclusion that I cannot give the movement to anyone."

A delegate said later privately, "It was a perfect Walesa declaration. No church, no KOR, nobody but me." The remark was atypical, but six months ago no one would have thought to say it.

The decision that upset the delegates was made by four presidium members to offer a compromise to the government on the method of selecting factory managers. By a vote of 348-189, the delegates adopted a statement asserting that the decision was a "violation of the principle of union 'democracy,'" since so few people took part in it.

Mr. Walesa voted against the statement, and when it passed he left the hall quickly. The delegates later approved a large vote of confidence in the union leadership.

Debt Talks Extended

VIENNA (Reuters) — Talks behind closed doors in Vienna between 21 Western banks and a Polish delegation on deferring repayment of \$2.4 billion of Polish debt were to go into an unscheduled third day Wednesday, banking sources said late Tuesday.

### Venezuelan Leader Rómulo Betancourt Dies

By Les Ledbetter  
*New York Times Service*

NEW YORK — Former President Rómulo Betancourt, 73, who worked to restore democracy to Venezuela after years of military rule, died Monday at Doctors Hospital in New York of complications from a stroke. Mr. Betancourt had been living in Manhattan while working on his memoirs.

He was twice the leader of Venezuela — from 1945 to 1948, when he headed the junta that overthrew Gen. Isaias Medina Angarita, and from 1959 to 1964, after his election as president.

He was once called "a miracle in Latin American politics" because he left office as poor as when he entered it. "The only wealth that I have left is my honor," he often said.

Mr. Betancourt began as a revolutionary opposed to a succession of military dictators. His efforts brought him 18 years in exile, 10 of them after he headed the post-1945 junta.

He was born on Feb. 22, 1908,



Rómulo Betancourt in 1961

1928, when he organized a liberal student movement. He took part in student demonstrations against the dictatorship of Gen. Juan Vicente Gómez and was imprisoned in February. In April he led an abortive anti-government rebellion, then escaped to Colombia, where he wrote about his prison experiences.

Mr. Betancourt was an admitted leftist but also a staunch anti-Communist, a position he attributed to his short membership in the Communist Party in Costa Rica when he was a 22-year-old political refugee. He said, belonging to the underground organization was like "a youthful attack of smallpox that left me immune to the disease."

After the death of Gen. Gómez, the young Betancourt, who had been in exile since 1928, returned and lived in hiding from 1937 to 1939, when he was caught and expelled. Allowed to return from Argentina in 1941, he organized Acción Democrática, a non-Communist leftist party. It was defeated in elections in 1941 but joined forces with a group of young army officers and on Oct. 18, 1945, overthrew Gen. Medina Angarita in a coup accompanied by considerable bloodshed.

A ruling junta was composed of three officers and four civilians, with Mr. Betancourt as president. He remained in power until his former schoolteacher, Rómulo Gallegos, a novelist and radical politician, took over on Feb. 15.

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### Reagan Bars Illegal Caribbean Aliens

The Associated Press

WASHINGTON — President Reagan ordered the Coast Guard Tuesday to halt the flow of illegal aliens from Haiti and other Caribbean countries into the United States.

The entry of undocumented aliens from the high seas is hereby suspended and shall be prevented by the interdiction of certain vessels carrying such aliens," Mr. Reagan said. He said the entry of illegal aliens is "a serious national problem detrimental to the interests of the United States."

"A particularly difficult aspect of the problem," he added, "is the continuing illegal migration by sea of large numbers of undocumented aliens into the southeastern United States."



Shipyard workers hoisting Lech Walesa in a 38th birthday gesture at the Solidarity congress.

### European Missile Talks: How to Deal With More and Harder-to-Detect Weapons

By Michael Getler  
*Washington Post Service*

WASHINGTON — The negotiations scheduled to begin in Geneva on Nov. 30 between Washington and Moscow on limiting nuclear arms based in Europe are likely to be the most difficult and complicated in the 20-year history of superpower efforts at controlling atomic weaponry.

The United States and the Soviet Union approach these talks with vastly different goals, and the weapons involved are smaller, more numerous, more mobile, harder to find and thus harder to count than those that have been the main subject of arms control talks in the last 10 years.

During the 1970s, Moscow and Washington engaged in strategic arms limitation talks that dealt with limiting the land-based missiles, bombers and missile-firing submarines in the 6,000-mile range that could be used to strike at the other's homeland.

European Battlefield

But the Geneva talks will deal with theater nuclear forces, or TNF. These are hundreds, even thousands, of medium and intermediate-range missiles and aircraft that can shoot or fly from a few hundred miles to perhaps 2,500 miles on a battlefield that could cover Europe, including parts of the Soviet Union.

The talks grow out of a NATO decision in December, 1979, to deploy, beginning late in 1983, 572 new U.S.-built Pershing-2 and Cruise missiles in West Germany, Britain, Italy and possibly Belgium and the Netherlands.

The NATO missiles, with ranges in excess of 1,000 miles, were meant to offset a substantial arsenal of new Soviet SS-20 missiles, with a 2,500-mile range, that are already in place and targeted on NATO bases. NATO's intention was to make clear that if the Soviet Union attacked Western Europe it would not escape retaliation on its territory by U.S.-controlled weapons from West European bases.

At the same time, many West European leaders, mindful of their political left wings and of irritating the Soviet Union too severely, insisted that the United States also negotiate with Moscow as soon as possible to try to limit such deployments on both sides.

Thus, the United States enters these talks convinced of the need to modernize NATO's arsenal, but with a commitment to talk, while the Russians' priority is to stop the program before the first new U.S. missile is installed.

There are huge obstacles to agreement on what missiles are to be limited, and even very little agreement about what is to be discussed.

For example, Reagan administration officials say they want the initial negotiations limited to the SS-20 and about 350 older SS-4 and SS-5 Soviet intermediate-range missiles and, on the U.S. side, the Pershing-2 and Cruise missiles. All these are land-based missiles.

Moscow's Position

The Russians have about 250 of the triple-warhead SS-20 missiles deployed, but about 75 of these are said to be based in the eastern Soviet Union, presumably aimed at China. But because the SS-20 can be moved easily by truck, Washington wants all SS-20s counted in the overall balance of forces targeted on Europe.

Washington has not decided, officials say, how to deal in the talks with the newer Soviet SS-21, SS-22 and SS-23 missiles that may soon be deployed. These missiles have ranges of from 65 to 1,000 miles. Nor has it decided whether to propose that Moscow's Backfire bomber, with a range of more than 4,300 miles, be included in the theater nuclear force talks or any resumption of SALT discussions.

Moscow's position is that the new NATO deployments are a fundamental effort by the West to tip the strategic balance, because the Pershing and Cruise can reach the Soviet Union while the Soviet weapons in the TNF talks cannot reach the United States.

Moscow has already made clear that it does not want the talks limited to land-based missiles. It wants to include all U.S. "forward-based systems," meaning U.S. fighters and bombers based in Europe, Britain and aboard aircraft carriers, on the ground that some of them can reach Soviet territory.

The United States, officials say, is still studying whether such planes would be included. But U.S. officials emphasize that in attempting to set equal initial ceilings on European-based arms, they are talking about missiles. Furthermore, if the negotiations ever get around to aircraft, the United States is prepared to argue that all Soviet aircraft that can reach Western Europe, including thousands based in Poland, East Germany and Czechoslovakia, should be included in the talks.

The United States will also insist that whatever agreements are reached be verifiable. But officials acknowledge that, because these weapons are so small and numerous, this will be more demanding than in any previous arms control agreements. So there is no decision as to whether on-site inspection will be demanded.

Officials say that it is not clear what relation TNF will have to SALT. The Reagan administration will not accept the SALT-2 pact signed in 1979 by former President Jimmy Carter and Soviet President Leonid I. Brezhnev. But officials acknowledge that TNF limits are largely meaningless without limits on strategic weapons because strategic weapons, if there are enough of them, can be used to hit all the theater targets as well.

The Reagan administration wants the new NATO missiles to be perceived in Western Europe as part of "a seamless web" of U.S. protection that covers conventional forces, theater nuclear forces and the big strategic forces. It does not want the TNF talks to heighten perception that Moscow is seeking to imply Europe — that the United States is preparing a war in Europe that will not encroach on the American homeland.

### INSIDE

#### Reagan Slippage

A poll finds that President Reagan's grip on U.S. public support appears to be loosening somewhat because of worries over the economic situation. Page 3.

#### Stocks Rally

New York stock prices ended broadly higher, continuing Monday's rally. Share prices in London and Tokyo rebounded strongly on the better news from Wall Street, but analysts said they were not certain that the downturn had exhausted itself. Page 17.

#### Arab Finance

A special supplement on banking and finance in the Arab world appears on Pages 7S-16S.

### Juan Carlos Testimony Sought in Coup Trial

By James Markham  
New York Times Service  
MADRID — Defense lawyers for some of the officers accused of plotting the failed military coup last February have called upon King Juan Carlos I to testify in their court-martial, claiming that the monarch was in favor of the attempted putsch.

In a clearly political maneuver, nine lawyers this week submitted a joint legal declaration that asserts that Gen. Alfonso Armada, one of the accused, communicated the king's wishes to the other plotters. Gen. Armada, a former tutor of the king and well known for his monarchist sentiments, proposed himself to lead an emergency government after rebel Civil Guards seized parliament and the nation's leading politicians on the evening of Feb. 23.

General's Lawyer  
But the general's lawyer, Ramon Hermosilla, called the joint declaration "absolutely false," evidently concerned that most of the other 31 officers accused in the case are attempting to heap all blame on his client.

King Juan Carlos is effectively banned by the Spanish constitution from giving evidence in court. By demanding testimony from him and Queen Sofia, the defense lawyers evidently hope to sow lingering doubts that somehow the monarchs were abreast of the coup.

Reacting swiftly after Lt. Col. Antonio Tejero Molina led 288 Civil Guards into parliament, the king, who is commander of the armed forces, rallied other wavering generals and defused the coup.

Detailed pretrial testimony, which has been leaked to the press, has disclosed among other things that on Feb. 23 Juan Carlos personally answered telephone calls from several foreign leaders who expressed their support for Spain's endangered democracy.

### Reagan Calls Free Markets Crucial to World Economy

By Lee Lescaze  
Washington Post Service  
WASHINGTON — President Reagan pledged continuing support for international lending institutions Tuesday in a speech primarily devoted to praise for free market economies.

Speaking to international economists, bankers and finance ministers at the annual meeting of the World Bank and International Monetary Fund, the president gave no details of the American support but stressed the importance to developing nations of private investment as well as international aid.

"The societies which have achieved the most spectacular, broad-based economic progress in the shortest period of time are not the most tightly controlled, nor necessarily the biggest in size, nor the wealthiest in natural resources," Mr. Reagan said.

"No, what unites them all is their willingness to believe in the magic of the marketplace."

Reward Supported  
Mr. Reagan said it is a fundamental human ideal "that individual effort deserves economic reward."

Depriving people of reward for their work crushes their spirit, he said. "So let me speak plainly: We cannot have prosperity and successful development without economic freedom. Nor can we preserve our personal and political freedoms without economic freedom."

Mr. Reagan also told the developing countries that the greatest contribution they can make to development is to put their "own financial and economic house in order."

Receiving his speech coolly, the approximately 2,000 delegates gave the U.S. president only polite applause at the end of the address.

The meeting is being held at a time of dismal economic predictions for many nations. It is also a time when Third World nations are expressing dissatisfaction with aid and development funds being provided by the industrialized powers.

The Spanish press has reacted angrily to the latest maneuver by the defense lawyers, who appear to want to delay the formal opening of the court-martial well into next year. The liberal Madrid daily El Pais called the lawyers' declaration "grotesque, particularly if one realizes that it was essentially the attitude of the king which succeeded in overcoming the coup and maintaining democracy."

The tactic of blaming Gen. Armada, who was deputy chief of staff of the army, appears to reflect in part differences among the plotters that emerged after the Cortes was seized. Lt. Col. Tejero was deeply angered when Gen. Armada informed him on Feb. 23 that civilian politicians, including Socialists and one Communist, would be included in the proposed emergency government. The rebel Civil Guard leader was in favor of a military junta.

In a separate declaration, Col. Tejero's lawyer maintains that on Jan. 18 Gen. Armada informed some of the plotters of a conversation he had had with the king and queen "in the Pyrenees" in which Juan Carlos had purportedly expressed his lack of confidence in Adolfo Suarez, who resigned as premier two weeks later.

According to this account, Gen. Armada told the assembled soldiers that the king had been considering a possible list of successors to Mr. Suarez, but had found none satisfactory. The king favored a civilian government, according to the Tejero statement, while the queen inclined to a "government of soldiers."

Gen. Armada has denied meeting with Col. Tejero, and the posture he adopts in the court-martial will importantly affect the attempt of the other plotters to implicate the king. The tack of Gen. Armada's defense seems so far to be that on Feb. 23 he simply attempted to avoid bloodshed in the Cortes seizure.

He made no pledge to maintain international assistance at any particular level and said that because of his strong support for the World Bank "we feel a special responsibility to provide constructive suggestions to make it more effective."

Mr. Reagan said he is looking forward to the 22-nation North-South summit in Cancun, Mexico, next month as an opportunity to discuss development problems. His speech, however, appeared designed to lower the expectations of developing countries that he might propose a large-scale new aid development program for the Third World.

Brandt Urges Talks  
BONN (Reuters) — Willy Brandt, former West German chancellor, Tuesday urged world leaders attending next month's North-South summit meeting in Mexico to find the will to begin global negotiations between industrialized and developing countries.

Reagan to Meet Press  
WASHINGTON (UPI) — President Reagan will hold his first formal news conference in more than three months Thursday afternoon, a White House aide said Tuesday.

No Progress Seen in Haig-Gromyko Talks  
(Continued from Page 1)  
Haig-Gromyko meeting with only interpreters present. Nearly three days of the four hours of last Wednesday's meeting also consisted of a one-on-one encounter.

Mr. Fischer had no explanation for the restricted nature of the meetings, except to say that the two men preferred it that way.

U.S. Aide Sees Arms Talks Early in '82  
BRUSSELS — A senior U.S. official said Tuesday that Strategic Arms Limitation Talks with the Soviet Union should start in February or March.

Eugene Rostow, director of the U.S. Arms Control and Disarmament Agency, said that the talks would be held in Geneva and be closely coordinated with the U.S.-Soviet negotiations on European-based, medium-range nuclear missiles opening in the same city Nov. 30.

Moscow and Washington negotiated and signed a SALT-2 treaty in 1979, but the agreement has not been ratified by the U.S. Congress. President Reagan wants to start new negotiations for what the United States would prefer to call Strategic Arms Reduction Talks (START).

Mr. Rostow, who briefed the NATO allies Monday on the emerging U.S. doctrine on arms control, said at a news conference: "Our aim is to approach the two negotiations together."

The U.S. official said that the dividing line between the two sets of weapons was not clear and not permanent since some Soviet strategic weapons could be used against Western Europe as tactical weapons while, on the other hand, some medium-range missiles could be easily transformed into strategic ones.

Romanian Defects to West  
DUESSELDORF — A Romanian, Radu Negulescu, has asked for asylum in West Germany, police said Tuesday. Officers said Mr. Negulescu was runner-up in the 1960 European Ping-Pong championships.

## UN Human Rights Panel Decides Not to Place Iran on Its Blacklist

By Iain Guec  
International Herald Tribune  
GENEVA — Despite growing concern that the wave of executions in Iran violates a wide range of international human rights agreements that Tehran has signed, a major United Nations human rights body has declined to place Iran on what is, in effect, the United Nation's human rights blacklist.

The decision was made by the 26-member UN Subcommittee on the Prevention of Discrimination and Protection of Minorities, which met here recently. It listed seven countries, including Venezuela and East Germany, but not Iran. Sources say that the subcommissioners from Pakistan and the Soviet Union may have played a key role in ensuring that Iran escaped censure.

Human rights activists here feel that the UN must begin to put pressure on Iran if its human rights machinery is to retain credibility. It has been criticized for being selective and slow to take action.

"Today's mass executions, after summary justice, are a major abuse of human rights. The UN simply cannot ignore it," said Hans Holten, deputy director of the Geneva-based International Commission of Jurists, an independent agency which complained of killings and torture under the shah. Subcommission resolutions called for the creation of a group on the rights of native peoples, a

high commissioner for human rights. They also criticized the regimes in El Salvador and Afghanistan, and deplored, in unusually strong language, the repression against Baha'is in Iran.

But this repression is only one aspect of the current turmoil in Iran, where as many as 2,000 persons are estimated to have been executed. And the impact of the public resolution may be undermined by the fact that the subcommission passed up the chance to firmly condemn these wider rights abuses.

U.S. Was on Blacklist  
The 26 subcommissioners are meant to be independent of their governments. Their main function is to draw up a list of countries charged, in the UN terminology, with "patterns of gross violations of human rights." This means abuses on such a scale and consistency that the government cannot possibly plead ignorance.

Each year the preliminary list is put together by five of the 26 subcommissioners from thousands of appeals submitted to the United Nations. This and other material is then reviewed by the full subcommission before being passed to the Human Rights Commission, the body which comprises 43 governments, including the United States and the Soviet Union. The process is ponderous, but it carries the full weight of UN disapproval.

In recent years, the subcommission has grown bolder, even putting the United States on the blacklist for the treatment of blacks in jail. This year it has only singled out seven countries: Afghanistan, East Germany, Argentina, Haiti, Paraguay, Uruguay and Venezuela (for the unexplained death of about 200 Colombian migrant workers last year).

Although Iran does not feature on the list, human rights pressure groups here have argued for some time that the Iranian government is, by the employment of tribunals, systematically violating the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the Geneva conventions.

On June 17, 1979, new regulations were adopted by the Iranian Revolutionary Council, tightening up the tribunals.

Pakistan's Role  
But this left "glaring omissions," according to a report by the International Commission of Jurists, no right to confer in private with lawyers before or during a trial, "inadequate time" allowed for preparing for a trial and, most seriously, no right of appeal. All, in the view of the jurists, violate the International Covenant on Civil and Political Rights, which Iran signed in 1975.

Iran has promised the United Nations a new report on how it is applying the covenant and has not demanded exemption from it on the grounds of the current turmoil or the war with Iraq — the sort of emergency that has caused Britain, for instance, to opt out of much of the covenant in 1978.

Another influential member of the group is thought to have been Vyacheslav Sofinsky of the Soviet Union, the former Soviet ambassador in New Zealand who was expelled last year for allegedly helping to finance New Zealand opposition parties.

Mr. Sofinsky is thought to have been thoroughly alarmed when East Germany was put on the blacklist last year for impeding freedom of movement, thus creating a possible precedent for appeals on behalf of Soviet dissidents.

### Dublin's 'Nonsectarian' Plan Stirring Debate

United Press International  
DUBLIN — A national debate on constitutional change appeared on Tuesday as the country's national newspapers backed Premier Garret FitzGerald's "crusade for a genuine and nonsectarian republic."

Mr. FitzGerald's proposals, made during a national radio interview Sunday and fiercely attacked by the main opposition party, call for rescinding the republic's traditional claim to Northern Ireland and legalizing divorce, currently prohibited by the constitution.

The Irish Republic's constitution claims jurisdiction over all of Ireland, including the six counties of Ulster, which remained under British rule when the republic was founded in 1920. Three counties of Ulster became part of the republic in the partition.

'Nonsectarian' State  
Mr. FitzGerald said he wanted to create a "genuine and nonsectarian" republic acceptable to Protestants in the north.

The Irish Independent, the country's largest circulation newspaper, said opposition leader and former Premier Charles J. Haughey had overreacted in his criticisms of Mr. FitzGerald's proposals.

The Irish Times called for "three cheers for FitzGerald" and said Mr. Haughey was "a bit off with his talk of ... giving the unionists [northern Protestants] propaganda to use against us."

Meanwhile, the Labor Party, the junior partner in Mr. FitzGerald's coalition, said it would introduce a bill in Parliament to permit divorce.

'Free Vote' Sought  
Labor leader Michael O'Leary said a majority in Parliament would favor such a measure if members were permitted a "free vote" instead of being bound by strict party lines.

Even if Parliament approved the law it would have to be submitted to a popular referendum, which observers said had little chance of passing.

Mr. FitzGerald, in calling for renunciation of Dublin's claim to the north, said he would not pursue his claim until he felt there was majority backing for it. Mr. Haughey's angry reaction to the proposal Monday indicated there was little chance of that.

Mr. Haughey's Fianna Fail Party has 80 seats in Parliament to 82 for Mr. FitzGerald's Fine Gael Party, with a handful of independents holding the balance of power.

Soldier Killed in Belfast  
BELFAST (AP) — Guinness believed to be Irish Republican Army guerrillas killed an off-duty soldier of the Ulster Defense Regiment and badly wounded another Tuesday as the men watched workmates playing soccer, police reported.

A police spokesman said at least two gunmen opened up on the men from a car in the Springfield Road district. A passing police patrol car chased the auto and rammed it. Three men were arrested and guns seized, police said.



Security forces saturated a district of West Belfast Tuesday after gunmen killed one part-time soldier of the Ulster Defense Regiment, a predominantly Protestant unit, and badly wounded another.

### Britain's Labor Party Says It Favors Irish Reunification

The Associated Press  
BRIGHTON, England — Britain's opposition Labor Party adopted a resolution Tuesday advocating the eventual reunification of Northern Ireland with the Irish Republic.

The measure on Northern Ireland was likely to alarm the one million Protestants in the province, who fiercely oppose being merged into a nation dominated by 3.5 million Catholics.

The policy was drawn up by Labor's National Executive last summer and marked a divergence in the traditional bipartisan approach to Northern Ireland by the Labor and Conservative parties.

But the 1,200 delegates to Labor's annual conference overwhelmingly rejected resolutions by delegates who wanted to commit a future Labor government to "immediately beginning" withdrawal of British troops and to the ending of British rule in the province.

"Withdrawal would be a complete abdication of our responsibility," the party chairman, Alex Kitson, told the delegates.

Mr. Kitson was cheered when he said Labor, like the Conservatives, rejected granting political status to jailed guerrillas of the Irish Republican Army. Ten of the nationalists are on hunger strikes at Maze prison near Belfast.

### Unofficial Study Group for Jews Is Reported Barred in Soviet City

By David K. Shipler  
New York Times Service  
JERUSALEM — The Soviet authorities are reported to have closed an unofficial "Jewish university" in Kharkov and arrested one of its organizers, according to information reaching Soviet emigres in Israel.

The study group, teaching weekend courses in apartments for about 25 children of would-be emigres, started about a year ago, according to Edith Frankel, director of Hebrew University's Soviet-East European Research Center.

The goal, she said, was to bring students up to levels they would face in Israel. Seven instructors taught chemistry, physics, English, higher mathematics, applied mathematics, Hebrew and Jewish history, she said.

### 5 Hijackers Divert Indian Airliner to Pakistan

The Associated Press  
LAHORE, Pakistan — A domestic Indian airliner with 117 persons aboard was hijacked to Lahore Tuesday by five Indians wielding knives and at least one hand grenade.

They demanded \$500,000 and the release of a jailed Sikh independence leader and his followers. Pakistani negotiators said the hijackers had set a 10 a.m. Wednesday deadline but had not made clear what would happen if their ultimatum was not met.

Sixty-eight hostages, including all 23 non-Indian passengers, were released after negotiations got under way in the airport lounge. A special Indian plane was scheduled to fly them to New Delhi via Amritsar late Tuesday, a Pakistani spokesman said.

### London Times, Unions Reach Provisional Pact

United Press International  
LONDON — Print union leaders reached a provisional agreement Tuesday night that will allow The Times of London and The Sunday Times to resume publication and ends the threat of their permanent closure, a union official said.

The talks had been described by publisher Rupert Murdoch as the "last chance for common sense to prevail." He threatened in a last-chance "ultimatum" to close The Times and its sister publication permanently unless there was a quick settlement of a labor dispute at the 116-year-old newspaper.

Len Murray, secretary-general of the Trades Unions Congress, announced the provisional agreement. Fickett lines that had forced cancellation of the daily Times editions will be lifted and printers will return to work Wednesday, Mr. Murray said.

### Error, Not Protest, Closes U.S. Nuclear Plant

Washington Post Service  
SAN LUIS OBISPO, Calif. — The Diablo Canyon nuclear power plant here has halted its controversial start-up operation but not because of anything related to anti-nuclear protesters who have been laying siege to the site. It was more embarrassing than that.

A plant official discovered late Sunday that drawings used to label certain crucial pipes in Unit One of the plant as safe from earthquakes actually were drawings of pipes in Unit Two. As a result, the start-up operation was halted on Monday. The error means the plant cannot operate until the Unit One pipes are checked and approved, which could take several weeks.

Earthquake readiness has been the major issue in the battle of Diablo Canyon, where more than 1,400 demonstrators have been arrested in the last two weeks. The plant is built over an old earthquake fault.

UN Report Assesses Israel's Nuclear Strength  
UNITED NATIONS, N.Y. — Although acknowledging gaps in its information, a UN panel of experts reported Tuesday that Israel was capable of producing nuclear weapons and possessed means of delivering them to Middle East targets.

The panel, composed of two Americans, a Russian, a Canadian and a Lebanese, was appointed by Secretary-General Kurt Waldheim in 1980 to examine the "danger" of the introduction of nuclear weapons in the Middle East. It concluded that Israel could have possessed nuclear weapons a decade ago. Israeli authorities have said publicly that the country is capable of producing atomic weapons "in a short time," but have denied that they now had the weapons.

In a report submitted by Mr. Waldheim Tuesday to the UN General Assembly, the experts said that on the basis of what is known about Israel's Dimona nuclear reactor, "the physical possibility exists" that Israel might already have enough weapons-grade material for making several bombs comparable to the bomb dropped by the United States on Nagasaki in 1945.

Consulate's Attackers Give False Names in Paris  
PARIS — France is preparing to try four pro-Armenian gunmen for last week's attack on the Turkish consulate in Paris but officials still do not know who they really are, officials said Tuesday.

Justice sources said that when members of the group were arrested, they claimed to be students at a Turkish security school in Istanbul. They also claimed to be students at a Turkish security school in Istanbul. The identities of the accused cannot be given until the group's defense lawyers have been appointed. The prisoners said this was done later by pro-Armenian groups in Paris.

6,000 on Hunger Strike Protest Spanish Jail  
MADRID — Almost 6,000 inmates of Spanish jails were on hunger strike Tuesday in protest against prison conditions.

A Justice Department spokesman said prisoners in 23 jails in Canary Islands to the northern Basque country had refused to support demands for a reform of the penal code, an end to overcrowding and shorter work hours for strikers.

The strike, which began on Saturday in Barcelona's Modelo prison, now involved about a quarter of the country's prison population, the spokesman said.

The strike comes against a background of growing indignation over prison conditions. The number of prisoners has more than doubled since 1977, according to official figures, bringing the total to 5,000 in the system was built to handle.

Authorities have acknowledged that the prisoners' demands are justified, but say the problems cannot be solved overnight.

Dutch Urge Leftist Role in El Salvador Talks  
THE HAGUE — The Dutch government has joined France and West Germany in urging the leftist front in El Salvador must be given a role in negotiating a peaceful return to democracy there.

Foreign Ministry spokesman Jan Willem Bontjes told reporters Tuesday: "We now recognize the front as one of the political forces in the dispute. This step is in accord with the French-Mexican statement."

Mr. Bontjes said the Dutch wanted to prompt a dialogue between the representative forces to restore democracy and end the civil war in El Salvador. He underlined that the government still regards the front as representative of part of the people but added, "We say the government should talk with the opposition to achieve a common solution without violence."

Soviet Couple Drive Into U.S. Moscow Embassy  
MOSCOW — A young Soviet couple and their two sons drove into the Russian guards into the U.S. Embassy here under cover of a mail van Tuesday, then left after talking to embassy officials. It was the first such incident in just over a month.

The couple, who appeared to be in their late 20s or early 30s, spent about an hour and 45 minutes inside the embassy compound. U.S. officials did not immediately provide any details on the couple or say what they wanted.

The pair drove out the compound followed by a U.S. car. The incident was a Soviet vehicle with four security guards in it. The couple were not spotted when they arrived because they came in the tail lights of a large truck used for mail.

# Poll Indicates Reagan Losing Some Support Because of Economy

By Adam Clymer  
*New York Times Service*

NEW YORK — President Reagan's once solid grip on public support appears to be loosening somewhat because of worries about the economic situation, and his speech calling for more budget cuts last week did little or nothing to reverse the slippage, a New York Times-CBS News Poll indicates.

The poll suggested that key population groups whose support has shifted the most were among those most pessimistic on key economic questions.

The poll also showed resistance to further budget cuts and unhappiness over Mr. Reagan's handling of Social Security. One-fourth of those interviewed said they would blame the president if the economy did not improve.

Fifty-three percent said they approved of Mr. Reagan's handling of his job, while 33 percent disapproved, a level about the same as President Jimmy Carter held four years ago. This was down from 59 percent in the last Times-CBS poll in June.

**Policies Disliked**

The quarterly poll of 1,479 voting-age Americans found the strongest declines in support among population groups whose backing had seemed most tentative, such as Democrats, young people, the less educated and suburban residents. Mr. Reagan's supporters said they liked him more for personal qualities than for his policies, while his critics chiefly disliked his policies.

In the telephone survey, begun early last week and completed Sunday, his handling of foreign policy won the support of 52 percent of those polled, and his policy toward the Soviet Union was backed by 62 percent. While 20 percent of those interviewed called his foreign policy "too aggressive" and 10 percent said it was "too weak," 59 percent said it showed "the right level of firmness."

Only 20 percent said they sup-

ported the proposed sale of AWACS radar surveillance airplanes to Saudi Arabia. Thirty-seven percent were opposed to the sale, and 43 percent had no opinion.

The 5-percent income tax cut that is to take effect Thursday is not providing much of a lift for Mr. Reagan. A declining percentage of the public said they planned to save or invest, rather than spend, the extra dollars they would get from the tax cut, and there was a strong preference for giving it up rather than making major cuts in Social Security or the military budget.

**Cuts Opposed**

For example, 64 percent of the public said they would prefer "giving up" the tax cut Congress just voted for" to making major cuts in military expenditures if these were the only possible ways to balance the budget. Twenty-three percent chose cutting military funds.

By an even heavier margin of 82 to 10 percent, the respondents preferred giving up the tax cut to cutting Social Security. Choosing between cutting the military budget or Social Security, 59 percent said they would cut military funds and 23 percent Social Security.

The black-white difference narrowed a little, with 59 percent of the whites and 14 percent of the blacks approving. In June, 66 percent of the whites and 13 percent of the blacks approved. Forty percent of all those interviewed, and 74 percent of the blacks, said they believed Mr. Reagan displayed "not much" concern about the "needs and problems of poor people."

Perhaps the most worrisome political implication for Mr. Reagan was that his Thursday night speech had no discernible impact. Previous televised addresses generated more support for his policies and helped him win difficult congressional tests. The poll included hints that the speech may have halted further declines among some groups in the population, but they were quite vague.

The defense lawyers also asked the court to prohibit the government from using as evidence statements that Mr. Hinckley made to law enforcement officials and psychiatrists after his arrest, and reserved the right to request that proceedings be moved outside Washington because of extensive publicity.

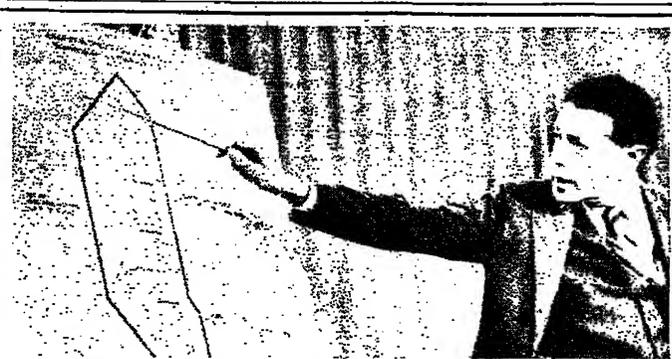
In asking the court to disallow statements that Mr. Hinckley made to law enforcement officials immediately after his arrest, the defense lawyers acknowledged that their client had waived his right to remain silent. But they contended that he was improperly denied access to an attorney after he repeatedly asked to talk with one and was questioned without one present.

Monday's court filings made it appear that Mr. Hinckley's trial will focus on his mental state at the time of the shooting and probably will be marked by long and detailed testimony from psychiatrists and psychologists on both sides.

**U.S. Navy Jet Crashes**

*The Associated Press*

MANILA — A U.S. Navy F-14 Tomcat crashed in the Arabian Sea while on a routine flight Tuesday after its two-man crew ejected safely, the Navy said.



U.S. Defense Secretary Caspar W. Weinberger commented on a chart showing the size of a Soviet tank factory at a news conference Tuesday that was beamed to NATO headquarters in Brussels. The outline of the plant outline was superimposed on a map of Washington.

# U.S. Promotes Book on Soviet Strength

*The Associated Press*

BRUSSELS — The U.S. Defense Department went to rare lengths Tuesday to publicize in Europe its glossy, illustration-packed new booklet on Soviet military strength.

The booklet, released in Washington at a news conference by Defense Secretary Caspar W. Weinberger, has been under study by members of NATO's 15 national delegations for more than a week. More copies were handed out here on Tuesday.

In an unusual public relations operation, Mr. Weinberger's news conference at the Pentagon was relayed live by close-circuit television to a NATO auditorium filled with European journalists, broadcasters and military officials.

Before the broadcast, one of the authors of the book was on hand to give the audience background information on its contents. The official, who declined to be identified, also refused to say what previously secret material had been declassified in the book. The booklet was produced in response to a request by European defense ministers last March for evidence of Soviet strength.

[The Soviet Union said Tuesday night that the U.S. booklet had been released to confuse, intimidate and misinform public opinion in the West, Reuters reported from Moscow.]

# Another U.S. AWACS Problem: Air Force Cannot Find Enough Officers to Fly Them

By Bill Peterson  
*Washington Post Service*

WASHINGTON — A new problem has crept up almost unnoticed in the gathering storm over the sale of AWACS radar planes to Saudi Arabia: There is a serious shortage of officers to man the planes the United States flies.

Air Force officers apparently do not find much satisfaction or reward in working on one of the most sophisticated surveillance aircraft in the world, according to congressional spokesmen. The crews find the hours long and the pay inadequate.

Besides, the typical AWACS officer spends 150 days a year away from home in places such as Iceland, South Korea and Saudi Arabia.

The shortage is particularly acute among experienced weapons controllers — the captains, majors and lieutenant colonels who oversee the high-priced electronic gear aboard the planes.

The Air Force is required to have 379 supervisory personnel to man its 25 Airborne Warning and Control Systems planes, but can muster only 288, according to Sen. Barry Goldwater, Republican of Arizona. It is required to have 32 field officers (majors or above), but has only 12.

Sen. Goldwater says the situation "is now severe and will worsen," especially if Congress approves the sale of five AWACS planes to Saudi Arabia and U.S. officers are dispatched to train the Saudis.

The controller shortage is blamed on several things. Part of it, according to Sen. Goldwater, is the old problem of keeping highly skilled people in the armed forces. As soon as they are trained, "the electronics people are waiting right outside the school building with their hands to grab them at one, two and three times the pay they would have received if they stayed in the service," Sen. Goldwater said recently on the Senate floor.

**Special Problems**

But the AWACS crews also have some special problems. One is the time that crew members, all stationed at Tinker Air Force Base in Oklahoma, have to spend away from home.

Hard feelings also result from pay differentials on each plane. Simply put, the officers in the front of the plane are paid more than those in the back. Pilots and navigators in the cockpit get \$306 a month in extra flight pay while controllers get \$110 in hazardous duty pay.

The House moved to correct that recently by adopting an amendment to the military pay bill. Under the amendment, captains, majors, lieutenant colonels and colonels with from six to 18 years' experience would get an extra \$400 a month in hazardous duty pay. The bill is now before a conference committee.

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WASHINGTON (UPI) — Secretary of State Alexander M. Haig Jr. said Tuesday that he would not "discount" any possibility for compromise on the sale of the AWACS radar planes to Saudi Arabia, while the Senate Republican leader suggested that "modification" might save the \$8.5-billion arms deal.

"I hope some way can be found to take the stress and tension out of the proposal, through modification," Sen. Howard H. Baker of Tennessee said.

"I believe it's desirable we have certain modifications in the proposal to ensure its passage," he said, adding that he expects a proposal from the administration Wednesday. Despite strong opposition in both houses of Congress, there is "still a chance we can make the AWACS proposal, if you'll pardon the expression, fly," he said.

# Bill on Telephone System May Expand Pentagon Role

By Merrill Brown  
*Washington Post Service*

WASHINGTON — Legislation nearing final Senate action would dramatically shift some of the government's power to regulate the nation's telephone system from the Federal Communications Commission to military agencies, according to industry and government sources.

Although the legislation, designed to deregulate the phone industry, would not give the Pentagon a role in setting long-distance rates, the Defense Department powers could have an indirect effect on the quality and cost of telephone service.

The legislation would allow the president, on a Defense Department recommendation, to require a communications company to provide any services, facilities or equipment "to promote the national defense and security or the emergency preparedness of the nation." No state of emergency would have to be declared. Under current law such powers are generally reserved for wartime.

For example, military officials could order limits on types of equipment companies could sell to consumers if they felt that equipment might harm the national American Telephone & Telegraph network.

**Warning in Memo**

The acting director of the Systems Evaluation Division of the Federal Emergency Management Agency, A.J. Henrichsen, warned in a memo to the agency's general counsel that if the bill was enacted it would give the Defense Department "statutory authority to impose 'national security' requirements on the telecommunications industry apparently without review except by the courts."

The emergency management agency is charged with handling the civilian response to major emergencies.

A number of communications experts suggest that the shift of power should be of concern on economic policy and potentially even civil liberties grounds. They said a stepped-up role for the Defense Department could undermine competition, which helps give consumers alternatives to AT&T for equipment and long-distance services. Some critics of the bill argue that Congress should consider carefully whether it wants

the military involved in decisions affecting the civilian communications network.

"There are significant provisions of the bill which are unduly favorable to the Department of Defense to the potential detriment of the ratepayers," said a policy-maker whose views were typical of those obtained from a dozen communications attorneys, lobbyists and U.S. officials. "It's like a hidden defense budget item. Clearly, there is too much of a shift of power to the Defense Department."

The legislation, a revision of the Communications Act of 1934, is designed to deregulate parts of the industry and free AT&T from legal constraints to compete in unregulated communications markets.

The bill, S. 898, was passed by the Senate Commerce Committee, 16 to 1, more than two months ago, with no debate on the defense sections. It may be considered on the Senate floor as soon as this week and has been expected to gain Senate approval.

**Access to System**

Pentagon officials are trying to use the legislation to resolve acknowledged management and technological problems that plague the nation's military and emergency communications system.

AT&T competitors are especially concerned about provisions of the bill giving the secretaries of commerce, defense or state the power to block disclosure of construction or operation information submitted to the FCC on the ground that disclosure would be "detrimental to the national defense and security." The FCC would be prohibited from releasing the information without the approval of the president, who would be advised on the matter by the Pentagon.

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But critics note that AT&T provides without charge communications tasks worth millions of dollars for the Defense Department.

# U.S. Environmental Agency Cuts Sought as Workload Rises Rapidly

By Philip Shabecoff  
*New York Times Service*

WASHINGTON — The Reagan administration is seeking to slash the staff size and operating budget of the Environmental Protection Agency by more than 30 percent during the next two fiscal years, putting in question its ability to carry out the tasks mandated by Congress, according to civil servants in the agency.

The cuts would come at a time when the agency's workload is increasing at a rapid rate because of programs enacted by Congress, including the new Superfund to clean up hazardous wastes across the country and the broad effort to protect human health from their toxic chemicals, including the cleanup of drinking water.

Byron Nelson, chief spokesman for the environmental agency, who is traveling in the West with EPA administrator Anne M. Gorsuch, was asked Monday about the reported budget and personnel cuts.

"We must emphasize that all of the figures are very preliminary," he said. "The administrator has not signed off on some of them or even seen some of them. He added that there is still waste within this agency that can be eliminated without impeding progress toward the nation's environmental goals."

Morgan Kinghorn, comptroller of the EPA, stated that the agency had received a notice from the Office of Management and Budget that it was to make the additional 12-percent budget cuts called for by the president last week for the fiscal year starting Thursday, Mr. Kinghorn said he did not know how the cut would be applied or "what further cuts will occur beyond the proposed 12 percent."

Documents provided by officials within the agency indicate that the cutbacks in money and personnel will continue beyond the coming fiscal year. A "decision unit analysis," from Mrs. Gorsuch's office indicates that she is seeking to terminate 3,200 permanent full-time employees in the 1982 and 1983 fiscal years. That would be 30.8 percent of the 1981 agency strength of 10,381. The document also indicates that the agency expects to lose an additional 6 percent.

**Bern Approves Buying Israeli Anti-Tank Arm**

*The Associated Press*

BERN — The Swiss parliament has approved the purchase of Israeli anti-tank projectiles worth 76 million Swiss francs (\$38 million).

The order is part of a 584-million Swiss franc package of anti-tank weapons voted by the lower house Monday, most of the funds going to replenish the country's stock of U.S.-made Dragon missiles. The package now goes to the upper house.

**Effect of Inflation**

William Drayton, former assistant administrator and chief budget officer of the EPA under the Carter administration, said that inflation would reduce the agency's spending power by 10 percent in the 1982 fiscal year and an estimated 5 to 10 percent the following year.

"In other words, after Reagan's first 20 months in office, the agency will not be able to purchase 60 percent of the staff, research, aid to the state programs and enforcement it previously could," Mr. Drayton asserted.

Also, the workload given the agency by Congress, particularly in the field of regulating chemicals and other toxic substances, will about double in the early 1980s and perhaps double again before the end of the decade because of the stream of new chemicals entering the marketplace.

# Giant Atom Plant Is Built in Russia

*Reuters*

MOSCOW — The Soviet Union has completed the first of a new generation of giant nuclear power stations, a 4,000-megawatt plant near Leningrad, Tass reported Tuesday.

The plant, made up of four 1,000-megawatt blocks, had been completed ahead of schedule and was already producing electricity at full capacity, the agency said.

Its output was due to supply a large part of the energy needs of the Leningrad region. It said adding that power would also be directed to the Baltic republics and exported to Finland.

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## What the World Bank Is For

The United States persists in treating the World Bank as though it were the competitor of the privately owned commercial banks. The Reagan administration seems to think of World Bank loans to the Third World as simple public subsidies — the international equivalent of welfare — while commercial bank loans represent the desirable discipline of private business. In fact, the genius of the World Bank has been its ability to collaborate with private lenders to supplement their resources, to enforce conditions on loans and to reduce the risks in international banking.

Political reality sharply limits the pressure that a commercial bank — particularly a U.S. bank — can bring to bear on the government of a Third World country with a delinquent loan. It's very easy for governments to raise a cry of imperialism and dollar diplomacy. It's harder for them to bring that kind of accusation against a World Bank delegation that might be made up of, say, two Indian economists and an Argentinian engineer. No loan to the World Bank has ever been defaulted. When the World Bank participates in a development project, it provides a real measure of reassurance to the commercial banks that are also participating. If the United States were to diminish its support for the World Bank, it would not only reduce developing countries' access to concessional — that is, subsidized — credit. It would reduce their access to commercial credit as well.

When Secretary of State Alexander M. Haig Jr. was at the United Nations last week, he spoke as though all but the poorest countries could turn to greater reliance on commercial bank credit. But in most of the rich

countries, financial authorities have begun to caution the commercial banks about the heavy debts of the developing countries. A few days ago Henry Wallich of the Federal Reserve Board pointedly and publicly suggested that it is now necessary to slow down the expansion of those debts. Many Third World countries managed to maintain rapid economic growth through the turbulent 1970s by increasingly heavy dependence on bank credit. That pattern won't survive far into the 1980s. What can the World Bank do to help?

One possibility might be the World Bank's much-debated energy affiliate, and the United States is simply and flatly wrong to try to kill it. The official U.S. view assumes that it's a socialist scheme to displace private initiative. In reality, it's an attempt to get heavy private investment into parts of the world unaccustomed to it and utterly suspicious of it. Most Third World governments fear being cheated by the oil companies. Most oil companies fear nationalization in those countries if their exploration should be successful. By becoming the third partner at the table, the World Bank would offer reassurance to both government and company against exploitation by the other. It's a strategy to accelerate oil exploration in regions where there's very little of it — a point that does not yet appear to have percolated all the way through the administration here in Washington. The World Bank's meeting this week offers the Reagan administration a well-timed opportunity for closer acquaintance with an indispensable institution.

THE WASHINGTON POST.



## Japan: Proverbs for the Faceless

By James Day Hodgson

WASHINGTON — Back in 1974, by a process I still don't fully comprehend, I found myself invited to represent the United States in Japan. Henry Kissinger, as secretary of state, sent me on my way with an elaborate briefing on the then-current state of geopolitical affairs. Kissinger, in my mind as I left his baronial office, however, were his final words: "Remember, Ambassador, when you ask the Japanese questions, do not expect answers. You will get only proverbs." Still puzzled by this enigmatic admonition, I set foot on Japanese shores in mid-1974. In my early months there I waited and listened but many a proverb did I hear. Late in the year, however, it happened. I was seeking an explanation of the ouster from office of Japan's Premier Tanaka. Japan's vice minister of foreign affairs was my mentor. "Ah yes," the vice minister advised, "Tanaka's ouster might seem puzzling to outsiders, but you see, in Japan, we have this old proverb.

"Aba," I thought, "here it comes. Kissinger is vindicated!" "We Japanese explain events like this," he went on, "by saying 'A nail that sticks out gets hammered down.'"

### Gets the Picture

Immediately, like a light switched on, I got the picture. In Japan, understatement and modesty are widely admired. The premier had become excessively assertive. Thus, he had to go.

Following Premier Tanaka's departure, a debate ensued over who should succeed him. Two candidates, Mr. Fukuda and Mr. Ohira, began to vie for the job. What started as some quiet maneuvering soon escalated into a real ruckus.

The decibel ratings of the discourse mounted daily. Each morning we would awaken and grab the newspaper to see which man might have won the job. Then one morning we awakened to a startling headline:

"Miki Named Premier!" Miki? Who was Mr. Miki? What had happened to Mr. Ohira and Mr. Fukuda? I sought out my friend the vice minister for still another consultation.

"You see, we have this old proverb," he began. (Here we go again, I thought.) "In Japan," he went on, "we believe that 'When two men fight, both must be wounded.'"

No further explanation needed. Mr. Fukuda and Mr. Ohira had of ferred Japanese tradition. They had shattered national harmony with truculent behavior. So each was forced to wait until a later day to lead his nation.

These and similar experiences in my first ambassadorial year drove home to me some striking differences between our two societies. Japan's ancient cultural roots contrast sharply with our mere 200 years as a nation.

One significant difference soon becomes clear. The Japanese are not pluralists. They have developed an acute sense of propriety of form. Not only do they seem to have proverbs for each circumstance; in Japan today there is an appropriate, an explicitly preferred way to do or to say almost everything. Propriety of form plays an almost intimidating role in Japanese life. The closer a Japanese observes this proper form, the better Japanese he is thought to be.

### Examine Workplace

Because I had spent most of my career in industrial human relations work, I could hardly wait to examine the Japanese workplace. What I saw I found hard to believe. I had pardonably thought I understood basic workplace principles. Yet quickly I found I still had much to learn. To be more accurate perhaps, I had much to unlearn.

What is an American to think, for instance, when he finds a society where "equal pay for equal work" is neither practiced nor sought? One after another, what I had viewed as "valid" principles — principles common to the U.S.

workplace — proved to be invalid in Japan. For example, in Japan I found that:

- You don't promote the most competent worker; you promote the one you hired first.
- You don't pay wages according to merit or productivity. Wages, in fact, have little relation to the productivity of either the individual or the plant in which he works.
- You don't encourage go-getting individual job initiative. Personal assertiveness is apt to be "disharmonious" and in Japan (as we have seen) disharmony is equated with disaster.

I investigated Japanese unions and was shocked to find them working hand in glove with management to promote higher productivity and lower costs.

Next I examined the Japanese unemployment rate. Unbelievable — less than 2 percent. I looked at their strike record — less than one-twentieth that of the United States. Finally, at their retirement eligibility age — employees there actually seek to have it raised, not lowered.

I studied "alienation" in the workplace which, as we know, is often something of a problem in the United States. Here I discovered that when responding to opinion polls, an incredible 80 percent of Japanese workers reported they were fully satisfied with their jobs.

### Paradoxes

Confounded by the paradoxes I saw, I was definitely attracted by many of Japan's fundamental values. I set out to learn more about what makes the place tick. For tick it certainly does.

As I came to see it, the vast differences between Japan and the West start with value contrasts that can be traced to the very roots of our respective heritages.

Probably the first and foremost value that underpins Western society is that venerable Judeo-Christian objective of justice — justice for the individual. I found it shocking to find that in Japan individual justice is not a top priority goal. If not justice, then what?

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— the bottom line, if you will — of these contrasting patterns, what do we find?

In America, we seek to stand out. In Japan, they seek to fit in.

These two quite different goals are not accidents of history. They are the product of our respective cultural heritages.

A final thought recalls the vice minister's proverb: "The nail that sticks out gets hammered down" — a perfect proverb for a desire-to-fit-in type of society. No comparable proverb exists here in the West.

Do we in the West have a proverb that illustrates a reward for "standing out" in society? Indeed we do. Ineptly it is:

"The squeaky wheel gets the grease."

Can it be that the contrast between Japan's pounded nail and the U.S. squeaky wheel provides us with a clue to better cultural understanding?

Mr. Hodgson, a former secretary of labor and U.S. ambassador to Japan, is active in a variety of Pacific Rim businesses and associations. He wrote this article for The Washington Post.

## Extremism in Poland: A No-Win Situation

By Jacek Kalabinski

Jacek Kalabinski is a commentator on Polish radio and president of the Warsaw chapter of the Polish Journalists Union. He wrote this article for The New York Times.

NEW YORK — Since the workers' revolt in Baltic ports in August, 1980, Poles often have been threatened with outside interference in their country's affairs and with the use of force by their own government. But instead of moderating the behavior of the workers, these repeated threats have radicalized them. For instance, Soviet military maneuvers held around Poland at the time of Solidarity's first national congress three weeks ago prompted a defiant response: The congress called upon other Eastern European nations to set up their own free trade unions, modeled after Solidarity. Without doubt, this unnecessary, risky appeal, which infuriated the governments of neighboring countries, was triggered by what was perceived as the threat posed by the maneuvers.

**No Longer Listen**  
Polish workers no longer listen when the government cries wolf. Today, most Poles ignore the warnings, or respond aggressively. So many times it has seemed that if this or that line were crossed, intervention would necessarily follow. But it turned out that the lines were drawn in time rather than space. Now most Poles believe that if things are done slowly enough to give the Russians time to adjust to the *faits accomplis*, almost anything can be done, and tolerated. This is a risky, not to say dangerous, attitude.

Certainly Poland is today a tormented nation. It is beset not only by economic difficulties but even more by political frustration. Both the government and Solidarity are to blame, although in different measures.

The government's original sin was to reconsider the economic and political concessions made to the workers in the Gdansk agreement of August, 1980. The authorities feared that these far-reaching changes in the system would not be acceptable to Poland's neighbors, and they came to feel that any compromise on their part would be regarded as an admission of weakness, a step back under pressure. They decided that the government could regain its credibility only by showing firm, even stubborn resolve. Today, some leaders even hope for a quick rollback of the popular movement; they believe that workers can forget their new demands and return to the status quo ante.

**Strike Publicity**  
The union's reaction to this new toughness in government policy has been increased defiance, more threats to strike, strike alerts and warning strikes. Since Solidarity was founded in August, 1980, however, only one workday per worker has been lost because of strikes, considerably less than in

many Western countries, but certainly with much more publicity. In many cases, strikes have been prevented by mediators, often ad hoc groups of intellectuals or clergymen who made a great effort to save face for the government. But before long it became clear that in spite of the authorities' wish to appear uncompromising, they could be pressed into making concessions. Indeed, trade-union activists have learned that the government is prepared to compromise only under pressure — and the stronger the pressure, the better the deal.

**In Political Bind**  
Thus, the strong-arm tactics designed to strengthen the government's prestige have in fact damaged it further. While the government is busy defending an image of authority, it has little or no time to cope with Poland's real problems. This, in turn, has deepened the public's conviction that the government is doing nothing and that the party only brakes the process of renewal.

As a result, both sides have turned to more extremist, confrontational tactics. Solidarity's rank-and-file members are becoming more radical than their national or regional leaders, more radical even than the former dissidents now active in the union.

On the other side, the Communist Party Congress in July only strengthened the pariahs of a "rollback" policy, confirming their authority by a democratic election. Moreover, the newly elected workers in the Central Committee generally come from medium-sized factories in small communities and thus tend to be politically naive and easily manipulated by professional party politicians who favor the hardliners.

Today, both sides are in a political bind. The government perceives that the union wants to take power. Each side blames the other for the deepening political crisis and resulting economic difficulties and tensions.

**Miscalculated**  
The government is convinced that the people are disillusioned by Solidarity and it hopes to destroy the union's prestige and political power by provoking it into declaring a general strike in impossible circumstances — to make demands that most Poles would not support, at a time when the call would not be followed. But in this the government has badly miscalculated. Many Poles blame the authorities for what is wrong with the country, and most young, professionally and politically active people are firmly behind Lech Walesa's union. No threats can change that. The crux of the problem is the government's failure to understand that a heavy-handed approach has always hardened the stubborn Poles instead of making them more compliant. Nobody can win in such a confrontation as this, and it hopes to destroy the interests not only of Poland but of its neighbors as well.

## Two Faces of AWACS

It is now the view of President Reagan's closest confidant in Congress that "we would be derelict in our security responsibilities" not to maintain at least "joint control" of any AWACS planes sold to Saudi Arabia — or, for that matter, even a NATO ally. The problem, says Sen. Paul Laxalt, a Republican from Nevada, is "the matter of face" in the sovereign House of Saud: "They don't want signals to be sent ... that they're incapable of handling that type of equipment by themselves."

The senator is only half right. There is also the matter of face in the White House, which wants to avoid any suggestion that it is unable to deliver, even on a foolish promise. If AWACS planes are so sensitive that they should not pass from U.S. control, why not gratefully acknowledge Congress's reluctance, stop berating the "Israeli lobby" and bring U.S. security concerns to the fore?

The real difficulty with this ill-planned venture is that military security was never the main concern. The Saudis have wanted for years to demonstrate that their oil wealth commands a privileged position in the United States and that they can have it without commitment to U.S. policies or the Egyptian-Israeli peace. And the Pentagon pushed these sales to help write off costly technology and to establish a "presence" where no open base has been allowed.

It may be, as Defense Secretary Caspar Weinberger contends, that "the destruction

of the oil-gathering and loading facilities in Saudi Arabia, or their control by a hostile power, could tip the balance of power in the world." But does he think defending all that can be entrusted to Saudi crews? Gen. David C. Jones, the chairman of the Joint Chiefs, says they would need at least 10 years of training after delivery of the AWACS in 1985. And in any case, AWACS aircraft are no defense against home-grown enemies.

Indeed, if the Saudis feel vulnerable enough to tolerate defense of the oilfields by U.S.-run AWACS planes from 1980 to 1985, they could tolerate them indefinitely. If, on the other hand, collaboration with the United States threatens the royal family's domestic security, who will be fooled by repainting the planes' insignia and disguising essential Americans as "training crews"?

Saudi face can still be saved by a declaration that these sophisticated battle-management systems are not now available for transfer to any nation. That would be a setback for the administration, but surely preferable to rebuff in the Senate or begging Riyadh to accept a camouflaged U.S. control.

But if face is to be saved by a compromise called "joint control," it had better be thought through more carefully than the original deal. Who will decide when these hybrid crews are committed to battle? If the answer is only an embarrassed hedge, two sovereignties will be at risk.

THE NEW YORK TIMES.

## Iran's Firing Squads

The firing squads have been busy in Iran. The number of executions within the past week seems to be approaching several hundred, if the reports in the Tehran press and radio broadcasts are at all accurate. The course of events there is at best difficult to follow; all international news organizations but one, the Agence France-Presse, have been forced out of the country. But it seems obvious that Iran is in the grip of a purge of increasing magnitude. The purge is, equally obviously, the response to the assassinations of government officials — and the executions have not succeeded in ending those attacks.

These fragmentary reports indicate that the guerrilla warfare against the clerical government is coming mainly from the Islamic left, and that it is not limited to covert bombings. There has evidently been open street fighting in many parts of the country. Inevitably, the Kurds have seized the opportunity to reopen their perennial rebellion in the northwest.

The immediate danger is, as always, an even more pervasive civil war leading to the collapse of all central authority in Iran. The struggle between the clerical right and the revolutionary left is already interwoven with the much older, and historically intractable, conflicts of religious sect and ethnic loyalty.

Demographically, the country is a central core of ethnic Persians — about half the population — surrounded by a rich variety of peoples with other languages, other customs and, very often, other national allegiances. It was held together for a time by the shah's military power. The present role of the army is particularly difficult to assess. It responded more competently to the Iraqi invasion than seemed possible a year ago, enforcing a standstill only a few miles inside the border. But the army's political intentions, if any, and even its capability to exert power within the country, are only question marks.

When the Iraqi invasion began, a great wave of panic swept over the Gulf region. The governments there vary only in degrees of fragility. The combination of great wealth and weak defense forces is not conducive to serenity even in the most peaceful of times. Then the level of anxiety declined around the Gulf as the invasion settled down to a stalemate. But now Tehran's daily announcements of executions indicate that the violence within the country has entered a new stage. It reminds Iran's uneasy neighbors that if the worst happens and civil war becomes general, it can become contagious.

THE WASHINGTON POST.

## In the International Edition

### Seventy-Five Years Ago

September 30, 1906

NEW YORK — A special dispatch from Havana states that Mr. Taft, the secretary of war, is to assume control of Cuba. The U.S. provisional government assumed possession of Cuba this morning, when Mr. Taft's proclamation, declaring himself provisional governor of the island, was formally issued. The proclamation's terms have caused general satisfaction especially on account of the moderate phrases in which it was expressed, its statement that the provisional government is undertaken only on account of the necessities of the situation and its promise that it will be maintained purely to maintain peace, order and public confidence until a permanent government is established.

### Fifty Years Ago

September 30, 1931

LONDON — A desperate effort was made here tonight to reach a settlement between Hindus and Moslems before the matter comes up formally again with the siting of the minorities subcommittee of the Indian round-table conference. Tonight, the Moslems held important conferences among their groups to discuss a proposal said to have been made to them last night, when Gandhi conferred with the Aga Khan and other Moslem leaders. Ma Jinnah, president of the Moslem League, is reported to have threatened him that if the latter does not agree to the Moslem demands he would wreck the round-table conference by refusing to agree to constitutional provisions demanded by the Hindus.

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# Sweden's Fälldin Facing Political Test Over Economy

This is the first of two articles assessing the political and economic prospects for Sweden and alternatives being presented by the nation's two principal political leaders.

**By Axel Krause**  
*International Herald Tribune*  
STOCKHOLM — General elections in Sweden are still a year away, but the two leading contenders — the Centrist premier, Thorbjörn Fälldin, and the Social Democratic leader, Olof Palme — have already squared off in what is being seen as one of the most ardent political debates in Sweden since the end of World War II.

On Sept. 14, in a move widely regarded as the opening salvo, Mr. Fälldin devalued the krona by 10 percent and announced a package of measures aimed at strengthening the sagging economy, driving down double-digit inflation and improving the export competitiveness of Swedish products.

"By the action he took, particularly the devaluation, which we welcomed, he has started the debate on Sweden's economic future," said Carl G. Olson, president of Skandinaviska Enskilda Banken, Sweden's leading bank.

The first political test for the package will be the parliamentary debate after legislators return from their present recess on Oct. 6. The government's package will be submitted for a vote several weeks later, and it has a fair chance of passing in the present form, according to interviews last week with a dozen leading political, financial and business leaders in Stockholm.

"How we succeed in the next few weeks with our economic program will determine if we non-Socialists can make it politically, or whether the Social Democrats come back. It is one of the most crucial tests for conservatives in Sweden since the end of World War II," said a close adviser to Mr. Fälldin.

Meantime, Mr. Palme, emphasizing a need to preserve Sweden's welfare state concepts and supporting a controversial workers' fund scheme, said in an interview that he intends to lead his party to victory next year and recapture the premiership he lost to Mr. Fälldin in the 1976 elections.

Government measures requiring parliamentary approval include spending cuts totaling several billion dollars annually in farm, military and pension programs. The package also provides for a 3.46 percent cut in the value-added tax to brake Sweden's 14-percent and steadily rising inflation.

Mr. Fälldin, widely regarded as a thoughtful politician, is slow to react and speak his mind, particularly on economic and foreign policy issues. His critics portray him as a plodder, contrasting him with the quick-witted and internationally minded Palme.

**Strong Grip**  
In an interview in Stockholm last week, Mr. Fälldin gave the impression of a leader determined to fight hard for his job and to maintain a strong grip on the leadership of the nation's main conservative parties, with whom he is governing

— his Center Party and the Liberals.

"Of course I intend to present myself for re-election in September, 1982, and we hope for the support of the Swedish people regarding our program for improving the Swedish economy," he said.

Pressing between answers that came through an interpreter, he sketched the broad outlines of his program, described by his advisers as "Reaganomics, Swedish style."

"Everyone in this country has realized that we need to make changes ... that we cannot go on with our high [public sector] spending," Mr. Fälldin said.

Stressing that he eschews pure classical liberalism, he said the package is aimed at moving Sweden away from established welfare state concepts and practice, but without destroying the system.

There is agreement among many political and business leaders that if Mr. Fälldin and his minority Center-Liberal government are to remain in power and win re-election, they must convince the nation that their conservative approach to reforming welfare state concepts can work.

Among those who hesitate to approve this approach is Gösta Bohman, a former minister of the economy who earlier this year led the Moderate Party out of the three-party governing coalition, but who has continued to support Mr. Fälldin. "Devaluation was an act of courage and I praised the government for it," he said, adding quickly that he had reservations about cutting the value-added tax.

**Defeat Predicted**  
He said he was not certain the government "can make the necessary savings and still cover costs for our established programs." He did not indicate his party will vote later this month.

Opinion polls and the media foresee a return to power by the Social Democrats next autumn, citing divisions among the non-Socialist parties and public frustration with the government's labor wars against lowering top-bracket income taxes, fighting inflation and growing unemployment, and trimming Sweden's soaring public sector debt.

Many observers, including leading Swedish bankers and independent economists, wonder what need for the future. Some politicians, including non-Socialists, doubt that the program can succeed, and many businessmen wished the devaluation had been higher.

"If his concepts appear loose to you, well, that is the way he is," said Bengt Ryden, who heads the Business and Social Research Institute, an independent think tank based in Stockholm. "Most people get the same impression."

"But do not be misled, for Mr. Fälldin's move now represents a very definite effort to re-establish himself and to show that his government is not paralyzed, as some people think," Mr. Ryden added.

Mr. Fälldin said he was looking forward to discussing strategic issues with U.S. Defense Secretary Caspar W. Weinberger in Stockholm in mid-October, and then to attending the October conference of rich and poor nations in Cancun, Mexico, as the representative of the Nordic countries.

**Enjoying Travel**  
"It has not been publicized widely, but the premier — to our delight — has actually started to enjoy the travel and meeting other top leaders," one of his advisers said, noting that in the past year he has visited China and Kenya and that he plans to visit India in February.

Mr. Weinberger's visit will be the first to Sweden by a U.S. Cabinet member since President Reagan's election. U.S. officials say the visit was scheduled by the Carter administration and there are no major problems between the United States and Sweden.

Political observers in Stockholm said that the publicity could help Mr. Fälldin. "He has a long way to go to catch up with Palme on the international front, but he is trying," a banker said.



Premier Thorbjörn Fälldin

Regarding the controversial idea of a nuclear-free Nordic zone, which neutralist Sweden favors, Mr. Fälldin said "I imagine it will come up" during Mr. Weinberger's visit, but he said he did not intend to push hard for its adoption and considered it an issue better handled by Norway and Denmark, which are NATO members. "We all have a common interest in doing away with nuclear weapons in the whole of Europe, including Communist countries," he also said.

Concerning the Cancun conference, he said it is "important that we not go into the meetings with unrealistic goals and expectations." But he added that he hoped informal meetings with other leaders "may force all of us to be more active in these matters between developed and developing nations."

Mr. Fälldin said he would welcome an invitation to visit Washington for an official meeting with President Reagan.

**Tomorrow: A look at Olof Palme's opposing viewpoint.**

# Commonwealth Faces Fight on Sports Rule

**Reuters**  
MELBOURNE — New Zealand Prime Minister Robert Muldoon, in a challenge to African leaders, Tuesday demanded that athletes from Commonwealth nations be allowed to decide whether to compete against South Africans.

He said New Zealand might pull out of a 45-nation Commonwealth accord unless the organization agreed that member governments had no obligation to ban sports links with South Africa.

Mr. Muldoon issued his challenge at a press conference two hours after arriving for a Commonwealth summit starting Wednesday.

He denied that his refusal to ban a recent tour of New Zealand by South Africa's 1977 Gleneagles team breached the 1977 Gleneagles agreement which binds Commonwealth states to discourage sports ties with South Africa.

He said the agreement called on member governments to take all practical steps to halt such contacts but left it to the athletes to decide whether to play against South Africans.

"Providing that is understood, then the Gleneagles agreement can carry on intact," Mr. Muldoon said. "If that is not understood and accepted, then there will be no Gleneagles agreement as far as New Zealand is concerned."

Diplomats said Mr. Muldoon's statement raised the prospect that an open dispute will develop at the eight-day summit, although African states have indicated they are dropping demands for tougher restrictions on sports competition to isolate South Africa.

Mr. Muldoon, who described the Springboks' tour as a disaster, declined to say how far he would press his challenge if he fails to get a consensus on his interpretation of the Gleneagles agreement.

The agreement, named after the Scottish hotel where it was negotiated during the 1977 Commonwealth summit, is one of a series of international sanctions against South Africa's racial policies.

The two-month Springboks tour of New Zealand, which was marked by violent anti-apartheid demonstrations, ended two weeks ago.

**U.S. Tour Ends Quietly**

NEW YORK (UPI) — The Springboks rugby team, confronted by anti-apartheid protesters and violence throughout its two-week American tour, quietly boarded a plane Monday and left for Johannesburg.

The 32 team members and four team officials were taken in a chartered bus — out of sight of reporters and potential demonstrators — directly to the plane at Kennedy International Airport. The rest of the flight's 201 passengers had already boarded the South African Airways Boeing 737.

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# Tobacco Stocks Sold by U.S. Medical Group

**The Associated Press**  
CHICAGO — The American Medical Association has sold about \$14 million in tobacco stocks, an AMA spokesman says, reacting to embarrassing publicity about profits it was making from cigarette sales.

"The publicity from the fact that the AMA owned stock in these companies has hurt," the spokesman said Monday. "All our work to get people to stop smoking was lost."

The stock — in R.J. Reynolds Industries and Philip Morris, both cigarette producers — was sold in recent weeks, the spokesman said. It had been held by the AMA's physician-retirement plan.

"Selling the stock shows that MDs are putting their money where their mouths are when they preach to their patients about the dangers of smoking," said Dr. Alan Blum, a Chicago physician and one of the first AMA members to raise the issue.

# Ancient Steel-Making Secret May Be Cracked

**By Walter Sullivan**  
*New York Times Service*  
NEW YORK — Two metallurgists at Stanford University, seeking to produce a "superplastic" metal, appear to have stumbled on the secret of Damascus steel, the legendary material used by numerous warriors of the past, including the Crusaders. Its formula had been lost for generations.

Analyses of steel by Jeffrey Wadsworth and Oleg D. Sherby, in their search for a highly plastic form, revealed properties almost identical to those they found in Damascus steel, although their own plastic steel had been produced through contemporary methods.

The remarkable characteristics of Damascus steel became known to Europe when the Crusaders reached the Middle East, beginning in the 11th century. They discovered that swords of this metal could split a feather in midair, yet retain their edge through many a battle. The swords were easily recognized by a characteristic wavy or "damask" pattern on their blades.

Through the ages, armorers were rigidly secretive about their methods.

With the advent of firearms, the secret was lost, and it was never fully rediscovered.

Mr. Wadsworth and Mr. Sherby realized that they might be on the track of the method when a sword fancier, at one of their presentations, pointed out that Damascus steel, like their own product, was very rich in carbon. This led them to conduct comparative analyses of their steels and those of the ancient weapons.

When moderately heated, superplastic steel can be shaped into such complex forms as gears for an automobile, with minimal need for machining, leading to major economies in manufacturing. Their research, Mr. Wadsworth said last week, has shown how to make steel even more amenable to shaping than the Damascus variety.

A basic requirement is a high carbon content. Mr. Wadsworth and Mr. Sherby believe it has to be from 1 to 2 percent, compared to only a fraction of 1 percent in ordinary steels.

Another key element in Damascus blade production seems to have been forging and hammering at relatively low temperature — about 1,700 degrees Fahrenheit. After shaping, the blades were ap-

proportioned, then rapidly cooled, as by quenching in a fluid.

The secrets of Damascus steel were shared by armorers in many parts of the ancient world, notably in Persia, where some of the finest specimens were produced. It was in the quenching that many believed it acquired magical properties, according to Dr. Helmut Nickel, chief of the Arms and Armor Division of the Metropolitan Museum of Art in New York, legend had it that the best blades were quenched in "dragon blood."

For eight centuries the Arab sword makers succeeded in concealing their techniques from competitors, and thus from posterity. Writings found in Asia Minor say that to temper a Damascus sword the blade must be heated until it glows "like the sun rising in the desert." It then should be cooled to the color of royal purple and plunged "into the body of a muscular slave" so that his strength would be transferred to the sword.

In the ancient accounts there is more than one reference to such homicidal quenching. Dr. Nickel pointed out that while many of the quenching techniques were based

on superstition, they may have contributed to the success of the process, as by adding nitrogen to the alloy.

Ancient forging preserved enough carbide (in which three atoms of iron are mated to one of carbon) to give the blades great strength, yet not enough to make them brittle. The large carbide grains gave the blades their typical wavy pattern.

The superplastic steel developed at Stanford is kept at high temperature for only a few hours. It is shaped during cooling, reheated to moderate temperature for further working, and may then be quenched to achieve extreme hardness. This process, Mr. Wadsworth said, produces very small carbide grains and hence even greater hardness and ductility than in Damascus steel. Usually, ductility must be forfeited in favor of hardness, or vice versa.

Mr. Wadsworth said a number of knife-making societies, such as The Anvil's Ring, which has 1,500 members, have sought to learn details of the Stanford findings. The research is described in Volume 25 of Progress in Materials Science, a British publication.

# U.S. Jets Intercept 2 Soviet Planes

**United Press International**  
LANGLEY AIR FORCE BASE, Va. — For the third time in less than a week, Air Force jets have scrambled and intercepted Soviet reconnaissance planes off the East Coast, the Air Force says.

Two Soviet Tu-95s were met 220 miles (352 kilometers) east of Norfolk, Va., by two F-106 fighter-interceptors from Langley Air Force Base, according to an Air Force report Monday.

A spokesman said the Soviet aircraft remained over international waters and did not penetrate U.S. air space. He said the incident marked the sixth interception of Soviet aircraft by Langley jets this year and the third incident since Sept. 22.

# Pope, Ex-Archbishop Meet

**United Press International**  
CASTEL GANDOLFO, Italy — Pope John Paul II met privately Monday with the former archbishop of Canterbury, Michael Ramsey, and the two had "very cordial" talks, the Vatican said.

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# Reporter Quits Over Misstatements

**Los Angeles Times Service**  
LOS ANGELES — An Associated Press reporter has resigned after inquiries by the Los Angeles Times disclosed that she had written a story containing misrepresentations and incorrectly attributed quotations that had originally appeared in a West Coast magazine.

Gloria Ohland, 29, a reporter in the AP's Los Angeles bureau since June, 1979, wrote what was purported to be a first-person account of a "banzai run," a high-speed, multilane run down a freeway here at speeds up to 200 miles per hour (360 kilometers per hour).

Although she did ride briefly in two high-speed cars, neither car approached 200 mph and a three-car caravan she described in her story did not exist, the Times reported. The Times found that many of the statements attributed to her driver and to a California Highway Patrol officer originally appeared, with much the same wording, in New West magazine nine months ago.

The AP transmitted the Ohland story twice this month, to newspapers in California and Nevada on Sept. 4 and to papers throughout the rest of the country on Sept. 21.

The AP ran a five-paragraph "corrective" article during the weekend. It said the story "misrepresented the circumstances under which it was gathered and contained several inaccurately attributed quotations." An AP executive said Miss Ohland had resigned.

# Rómulo Betancourt Dies; Twice Governed Venezuela

**(Continued from Page 1)**  
1948, after Venezuela's first democratic elections.

Under Mr. Betancourt, Acción Democrática had begun an energetic reform campaign that included an excess-profits tax, rent reductions, obligatory unionization with employers and the 50-30 formula that gave Venezuela half the profits of the oil companies. Alarmed by the leftward trend and above all by plans to form a "people's militia," the army staged a new coup in November, and Mr. Betancourt again went into exile.

For more than nine years he lived in Washington, New York, Cuba, Costa Rica and Puerto Rico. The Venezuelan press was forbidden to mention his name, but through underground organizations he maintained his influence in politics.

In January, 1958, the armed forces rose against the leadership of Gen. Marcos Pérez Jiménez, who had been a member of the 1945 junta. Mr. Betancourt was able to return and reorganize his party, and in presidential elections in December he won with 1,284,092 votes out of a total of 2,610,833. His party won an absolute majority in Congress.

His government successfully put down an army revolt in April, 1960. In June that year he narrowly escaped death when a bomb exploded beside his car. In 1964 he visited office to the newly elected president, Dr. Raul Leoni, who had been labor minister in the Betancourt government.

The former president traveled extensively, spending much of his time in Bern, so that, he said, there would be a total break with his in-

# OBITUARIES

**Lord Boyle**  
LEEDS, England (AP) — Lord Boyle, 58, a former education minister and Britain's first leading Conservative Party politician publicly to oppose sporting links with South Africa, died Monday. He was vice of the Fair Cricket Campaign, which organized nonviolent, anti-apartheid demonstrations that failed to stop a 1970 tour of Britain by South African cricketers.

**Bill Shankly**  
LIVERPOOL (AP) — Former Liverpool manager Bill Shankly, 67, one of the most successful coaches in English soccer history, died Tuesday after a heart attack. He was in charge of Liverpool for 15 years, retiring in 1974 after guiding the team to three league championships, two FA Cup final triumphs and victory in the UEFA Cup.

**Dr. George W. Corner**  
BALTIMORE (UPI) — Dr. George W. Corner, 91, whose research into the female reproductive system paved the way for the development of the birth control pill, has died in Huntsville, Ala. The Johns Hopkins Medical School announced. Dr. Corner and a co-worker, Willard M. Allen, were first to identify the hormone progesterone, whose isolation was the basis for later research teams that developed the contraceptive pill.

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Andorra (air)	330.00	115.00	63.00	Israel (air)	230.00	115.00	63.00	Romania (air)	330.00	165.00	63.00
Austria (air)	2,700.00	1,350.00	726.00	Ireland (air)	72.00	36.00	19.80	Saudi Arabia (air)	348.00	124.00	69.00
Belgium (air)	5,400.00	2,700.00	1,500.00	Israel (air)	248.00	124.00	69.00	South America (air)	330.00	165.00	92.00
Bulgaria (air)	230.00	115.00	63.00	Italy	144,000.00	72,000.00	39,600.00	Spain (air)	12,600.00	6,300.00	3,520.00
Canada (air)	330.00	165.00	92.00	Japan (air)	248.00	124.00	69.00	Sweden (air)	534.00	267.00	150.00
Cape Verde (air)	230.00	115.00	63.00	Lebanon (air)	248.00	124.00	69.00	Switzerland (air)	S.Fr. 320.00	160.00	90.00
Cyprus (air)	230.00	115.00	63.00	Lithuania (air)	248.00	124.00	69.00	Turkey (air)	330.00	165.00	63.00
Czechoslovakia (air)	330.00	115.00	63.00	Luxembourg (air)	5,400.00	2,700.00	1,500.00	Turkey (air)	230.00	115.00	63.00
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Egypt (air)	248.00	124.00	69.00	Malta (air)	230.00	115.00	63.00	U.S.A. (air)	230.00	115.00	63.00
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Lifestyles

The New \$3-Million U.S. Hideaway of Jackie Onassis

By Sharon Hamric  
United Press International

MARTHA'S VINEYARD, Mass. — Jacqueline Kennedy Onassis has a new \$3.1-million island hideaway on Martha's Vineyard, where she can spend the summer secluded from the glare of publicity. Building inspector Zachary Zandler certified the secluded, three-story traditional Cape Cod house, barn and silo "habitable" in June. "There's no other place like it. The vegetation and the mixture of plants — it's all small scale, almost like a type of bonsai. It has incredible rocks, wildlife and fresh water ponds," Zandler said of the site where Onassis built the cedar-shingled house. The much-talked-about complex, invisible from the road and the beach, is on Squibnocket Point in Gay Head, a sparsely populated community on the western tip of Martha's Vineyard. The 10,000 people who live year-round on the island 30 miles (48 kilometers) off the coast of Cape Cod seem indifferent to the arrival of another summertime celebrity. "For us, it's not unusual to see Jackie at the fair or Walter Cronkite on his bike or Carly Simon or Beverly Sills at the A&P," said Chamber of Commerce spokeswoman Joann Walker. Onassis, who spends much of the year in New York, where she works at a publishing

house, assured Gay Head's 150 year-round residents that she intended to make her home as unobtrusive as possible. In 1978, she paid the Hornblower family \$1.1 million for the 276 acres (110 hectares) of land. For those who do get a look, the house is worth seeing. Those involved with the project were reluctant to reveal its building costs, but several sources have placed it at more than \$2 million. The complex consists of a main house, a barnlike guest house, a two-car detached garage and tennis courts. The landscape has been left in its natural state. Cedar shingles cover the sides and roofs of the house, barn and garage, which all have white trim and old-fashioned New England shutters. The main house has a living room, a family room, five bathrooms, three bedrooms and two fireplaces. "The view is disguised so that you don't get the full impact of the ocean view until you are in her living room, which is all white — the walls, the floor, the fireplace and even the chimney," Zandler said. The floors are bleached oak. "They have some sort of whitewash on them," he said. The kitchen is equipped with a 16-burner stove, a pantry, a dishwasher and a laundry area. A mammoth butcher-block chopping table takes up a large part of the kitchen, said Maggie Putnam, a Gay Head resident. "You have to detour around it to get across the room," she said.

All the bathrooms have electrically heated towel bars. "They are stainless steel bars hidden in the wall. The heat comes through the wall and warms the whole towel. The only place that makes them is in New York," said a source who asked not to be named. The two-story guest house has three skylights, two bedrooms, four bathrooms, a kitchen, a living room and an attached silo. "The guest house was built to look like it was a barn," Zandler said. "The silo is mainly for looks. It has a winding stairway with windows and a reading room at the top. A wraparound patio adjoins two sides of the main house. The blue cummerbund is of modern white tubing with blue cushions. Jim Leroux, who owns the dry-wall firm that worked on the home, described the complex as "a nice addition to the island." "I think it's a nice house and tastefully done," Leroux said. "But now she deserves the privacy she's tried to capture." Zandler said he never met Onassis but dealt exclusively with Alexander Forger, her trustee and attorney, and Anne Wallace, a Vineyard resident who described herself as "a go-between in the project." Both stressed Onassis' desire to enjoy her home in privacy. "She's very happy here and just wants her own space and privacy," Wallace said. "It's a private house, not a public house, and she wants to keep it that way." Forger said from his New York office.

Films

'Garde à Vue' Is a Classic French Detective Thriller

By Thomas Quinn Curtiss  
International Herald Tribune

PARIS — Set down "Garde à Vue" by Claude Miller as something to see. Crucially, penetrating, neatly maneuvered, and commendably acted, it is the best film the French cinema has disgorged in a long while. The shrewd observation of its three principals and the precise handling of the material contain the Gallic salt with which French directors of an earlier and happier era flavored their work. In somber misanthropy if not in its less ambitious execution it recalls the Clouzot of "Le Corbeau" and "Les Diaboliques."

This very French product is derived from an American detective novel with the scene shifted to provincial France. On a rainy New Year's Eve, a solid citizen of the town, donning his dinner jacket for a party, is accosted by police headquarters. There he is questioned through the night, being charged with the violation and murder of two little girls. He is savagely galled by a dry-spoken investigator and his sadistic clerk; his wife — who hates him like a rat hates poison — arrives gratuitously at the station to give unsolicited and fraudulent evidence that she hopes will lead to his release. In disgust with everything and everyone, the innocent suspect signs a confession, but is liberated with apologies when the true culprit is apprehended. An O. Henry twist follows, but that you must witness yourself.

The grim tale is vividly told. In essence it is a Grand Guignol shocker aided by some biting lines from Michel Audiard. There is remarkable economy in the execution of its staging. Like most talkies it talks too much, but unlike the majority it talks to the point, providing insight to the revelations.

There is uncommon skill in the interweaving of a flashback to the home fire that resulted in the damning lies that the woman recites against her husband. The whole thing has been done with simplicity and verve and retains suspense during its hour and a half, being mercifully brief and wasting no time on the unnecessary details so often piled on in meandering movies.



Lino Ventura (left), Michel Serrault in "Garde à Vue."

Lino Ventura delivers an admirable characterization as the cynical detective, and Michel Serrault gives a glimpse of his range in his persuasive performance as the persecuted suspect. Romy Schneider brings a sinister glitter to the role of the deceitful woman who loathes her mate so implacably, while Guy Marchand etches the mean-minded and inefficient police stenographer into a full-blooded villain. Both Miller's scenario and his direction of it are deserving of high marks. "Garde à Vue" is at the Berlitz, the Gamoult Les Halles and the France-Elysees, among others. It is destined for success at home and abroad.

Francois Truffaut has established an international reputation that is sometimes justified and sometimes not. He works more consistently than any other French director, but his work is startlingly inconsistent, now amazingly good and then flabbergastingly feeble. There are things he can do — "Les quatre cents coups," "L'Enfant Sauvage" and his able if not distinguished engineering of "Le Dernier Metro" — and there are things he cannot do at all but tries nevertheless. In his new film, "La Femme d'à Côté" we have him at his worst, having burdened himself with a script that he and his collabora-

tors, Suzanne Schiffman and Jean Aurel, have composed on a theme utterly beyond his capabilities. Its subject is mad passion's havoc. What we have here is a tub of soap opera. The publisher of this sex study has begged reviewers not to reveal the movie's plot, and this is judicious advice as there is no plot as such, merely a situation — the return of an old flame to bedevil her former lover now married to another.

Truffaut is simply not the man to create a "world-well-lost-for-love" romance, nor is Ferry Ardant very convincing as the femme fatale. Gérard Depardieu as the passion-torn protagonist strives manfully as he moves from one ridiculous episode to another, accompanied by a dialogue of primi-

tivian seeking to go highbrow. Henri Carron, a comic comedian, does what he can as the standard complacent cuckold. In due course "La Femme d'à Côté" will be on TV, where it belongs. Temporarily it is at the Concorde Marignon, the UGC Biarritz and the Richelieu-Gamoult, among others.

The almost instant disappearance of Richard Donner's "Inside Moves" is strange enough to merit mention. It came to the Deauville festival heralded by several rave reviews in U.S. newspapers and as the festival received respectable notices from French critics. Yet its first-run release engagement must be one of the shortest on record.

It is an account of a group of handicapped men who gather to converse and play cards in a shabby saloon to forget their miseries, and of a desolate young man, crippled in a suicide attempt, who joins them and in their company is restored to accepting his lot. The ingenuous moods of its first quarter, its doleful setting and maimed people, together with its verbosity, evidently scared off customers. John Savage, a youthful actor of considerable talent, rendered a satisfactory if studied impersonation of the unhappy protagonist and all the other gave the venture unstinting support.

It is not sufficient, as Donner seems to have believed, to suddenly cast an radiant light after an hour of heavy gloom. A situation as depressing as the one treated here requires the voltage of powerful drama to compensate for its tour of the lower depths. Otherwise, as in this instance, the depression is doubled.

Opera in England

Season Off to Good Start

By Henry Pleasants  
International Herald Tribune

LONDON — A new opera season is off to a promising start with new productions of "Samson et Dalila" by the Royal Opera at Covent Garden and "Otello" by the English National Opera at the Coliseum.

Much curiosity attended the opening night Monday of Saint-Saëns' only surviving opera, as "Samson et Dalila" had not been presented at Covent Garden since 1928, and one wondered whether this Elijah Moshinsky production, with sets and costumes by Sidney Nolan and with Jon Vickers and Shirley Verrett in the title roles, would show the neglect to have been undeserved. It did, although with the qualification that if the opera is to be restored to the repertoire it has better be with principal protagonists as charismatic vocally, physically and historically as Vickers and Verrett.

Both have sung these roles with great success elsewhere, and both, on this occasion, were in splendid voice and form. Verrett betrayed not a trace of the indisposition for

which the audience's indulgence had been craved before the rise of the curtain. In appearance, movement, posture and attitude, she is the ideal Dalila, and her singing matches the visual projection of the biblical seductress, the voice lacking only the ultimate in opulence and amplitude required to ideally complement Saint-Saëns' insouciant orchestral and choral setting. Moshinsky's production is imaginative and appropriately colorful, if too cluttered in the last act, and Nolan's sets and costumes are likewise, though a series of surrealistic gauze drops, however praiseworthy simply as paintings, come across as stylistically anachronistic superimpositions on a 19th-century opera. Orchestra and chorus, led by Sir Colin Davis conducting, do full justice to Saint-Saëns' Gallic wizardry.

Jonathan Miller's production of "Otello" — in English, of course — is more problematical, if, on the whole, a thoroughly distinguished accomplishment.

Not everyone will applaud an approach suggesting that the opera should have been entitled "Iago" rather than "Otello" and subduing the racial element by giving us a swarthy rather than dusky Moor and a brunette rather than blond Desdemona. But on Miller's own terms it is all skillfully and fleetly managed, with splendid performances by the veteran Charles Craig in the title role, Neil Howlett as Iago and the promising Rosalind Plowright as Desdemona, the latter especially successful in her taxing last act. Mark Elder is a sensitive conductor except for a tendency to let the orchestra overpower the singers at climactic moments.

The single setting, by Miller's long-time collaborators Patrick Robertson and Rosemary Vercoe, is unsatisfactory, looking rather like a kitchen-pine, and the English translation is an irritant, not because it is bad, but simply because it is English. "I'll kiss you" for "un bacio" as set by Verdi, for example, won't do.

Shirley Temple Collectibles

United Press International  
SAN FRANCISCO — Shirley Temple Black has signed an agreement with the Norman Rockwell Museum of Northbrook, Ill., giving it the right to reproduce Shirley Temple film characters and scenes on collector plates and other items.

Fashion

Culottes: Split Decision

By Hebe Dorsey  
International Herald Tribune

PARIS — It's a skirt, and yet it's not a skirt. Call it culottes, bermudas, knickers or whatever, the trend is taking Paris, Milan, Rome and New York by storm. Young girls walking down the Boulevard St. Germain are all wearing one or another version of divided skirts that vary in length from short to very short, another sign that short skirts are here to stay. As a matter of fact, you also see quite a few minis in the street.

One of the reasons for the culottes craze may be that women of the younger generation have been living in jeans and pants for so long, they simply do not know how to wear skirts any more. Then, too, skirts to them are uncomfortable, bourgeois and passé.

Just as in skirts, there is a great deal of variety in these culottes. They can be slim or flared, cuffed or bouffant, pleated or gathered. If the girl is slim, she is likely to wear the skinny, cuffed type; if she is plump, she will inevitably end up with the flared ones.

Giorgio Armani was first with the trend in October, 1979, when he did not show a single skirt in his collection. "I am bored with skirts," he said at the time. Now the retailers have caught up. For Elie Jacobson, owner of Dorothea bis, "the culotte is the return of the mini-skirt in disguise." At JNS 3, one of five shops belonging to Jacques Samson, who has one of the largest retail operations in Paris, the culottes are the strongest trend this season. "We started selling them a year ago, but we're really cashing in now," he said, standing between rows of all kinds of culottes, from gold-trimmed paisley to corduroy and fake suede. The prices, he said, range from 150 francs to 500 francs (about \$27 to \$90), the best seller being the cuffed, gray flannel culottes at 390 francs (about \$70).

Leather culottes on street.

NYSE Nationwide Trading Closing Prices Sept. 29

Tables include the nationwide prices up to the closing on Wall Street. The table contains multiple columns of stock data including stock names, prices, and trading volumes. It is organized into sections for various market segments.

(Continued on Page 18)

# Banking and Finance

## in the ARAB WORLD

### French Leaving Boards In Region

By Alan Tillick  
WINDS of change have blown through the previously close-knit world of Franco-Arab banking where for eleven years or more the men controlling the major French state banks and others have sat around boardroom tables with bankers from Kuwait, Saudi Arabia and elsewhere. The French are now departing from the boardrooms.

The first guests were discernible before the recent radical change of government in Paris, a shift that caused considerable nervousness in the Gulf capitals and which prompted a not inconsiderable withdrawal of funds. Before the French elections in May, the Arab shareholders in the consortium banks had reached the conclusion that they were sufficiently mature to take over.

President Charles de Gaulle and Georges Pompidou, at the start of the 1970s, saw these banks as the commercial expression of the pro-Arab tilt in French policy, following the 1967 Israeli-Egyptian war. The French state banks entered into partnership with the Arabs and for some time ran the show.

The three major consortium banks — Union des Banques Arabes et Françaises (UBAF), Frab Bank International and Banque Arabe et Internationale d'Investissement (BAII) — are all being pulled toward an Arab position. The change is clear with UBAF and Frab, much less so with BAII.

Stockpiling  
This summer has seen some major changes. The decision of Credit Lyonnais, the No. 2 French state-controlled bank, to drop out of the holding company controlling UBAF, sent something of a shockwave through the French banking community, well before the much-publicized nationalization of 36 private French banks by the new government.

These followed the Arabization of Frab, where Ste. Generale, the No. 3 French bank, and various international partners hold 50 percent of the capital along with Kuwaiti- and Saudi-dominated Arab interests. The new controlling partner will be the National Bank of Kuwait. Out of the consortium, along with Ste. Generale, are Ste. Generale de Banque of Belgium, Swiss Bank Corp., Amro Bank, Industrial Bank of Japan and the National Investment Bank of Greece.

The Arabization started before the change of regime in France and, ironically, is continuing because of it. UBAF wanted greater Arab control for a long time, while the others are seeking that because of the internal political change. The departure of President Valéry Giscard d'Estaing frightened Arab rulers and some, such as the Emir of Qatar, withdrew money and dropped plans for joint investment companies.

But others decided to reinforce their positions. This will be the case with the Emir of Qatar, who Frab, despite the fact that the new Kuwaiti bank in Paris, which is purely French, is now operating.

The French-Arab consortium (Continued on Page 14S)

ABC directors say its creation was motivated by a desire to achieve for Arab banks the major role in the international market. The directors also said that Arab banks, while they maintained a presence in the international market for more than a decade, were restricted in their activities by their capital structure, which did not allow them to absorb deposits of a sizable amount.

Some \$750 million of ABC capital has been paid, with equal contributions coming from Kuwaiti Finance Ministry, Libya's Finance Secretariat and the Abu Dhabi Investment Authority. Chief executive and president, Abdullah al-Saudi, said, "Countries which enjoy a balance of payments surplus



A SPECIAL SUPPLEMENT

### Petrodollar Threat Fails to Materialize

By Shakib Otaqui

THE SCENARIOS of doom that followed the 1973-1974 oil price rises have not materialized. The world's financial markets have been able to process the enormously increased flow funds, most of which have returned to the countries that paid them in the first place. The growth in financial reserves of the Organization of Petroleum Exporting Countries has stabilized — revenue has been constrained by the fall in demand for oil, while expenditure on development has exceeded original estimates of these countries' ability to absorb.

OPEC members' large current-account surpluses virtually disappeared by 1978, when their combined total was only about \$5 billion. They recovered in 1979 and 1980 under the impact of the Iranian revolution but have since declined because of the world oil surplus.

Exact figures are hard to come by. Sources such as the Bank of England, the Bank for International Settlements and the Organization for Economic Cooperation and Development give widely different estimates; so do reports from such private institutions as banks and oil companies. Estimates for 1979 average out at \$63.5 billion, rising to \$107.3 billion in 1980. Forecasts for 1980 and 1981 vary even more widely but average out at \$85 billion and \$60 billion, respectively.

Eurodollar Markets

The dollar has been traditionally the favorite home for OPEC funds. These have not necessarily poured into the United States, as much of the holdings have been placed in the Eurodollar markets. But by the beginning of the 1980s, the dollar had lost some of its attraction, and OPEC fund managers have become increasingly sophisticated in finding other outlets.

The crunch came with the freezing of Iranian assets during the crisis over the U.S. hostages in 1979, which sent shivers down the spines of OPEC, and Kuwait, in 1974, and the chronic weakness of the dollar in the 1970s. Buying U.S. government securities, a favorite with the Saudis, has been described by a U.S. observer as "buying a piece of our inflation and a piece of our national debt."

The shift out of the dollar became evident in 1980, when the Bank of England estimated the dollar share of OPEC foreign assets to have fallen 70 percent at the end of June, down from 75 percent at the end of 1979. The trend has accelerated in 1981, when OPEC countries in the first quarter placed only 40 percent of their new deposits with member banks of the Bank for International Settlements in dollars.

This has coincided with a revival of OPEC investment in Japan and other industrial countries. Total OPEC holdings in Japan reached \$25.5 billion in 1980, more than double the 1979 figure. They are expected to soar to \$78 billion by 1985, according to a survey by the Nomura Research Institute. Holdings in West Germany and Switzerland are also rising, as economic difficulties have forced these countries — which have traditionally been against internationalizing their currencies — to offer government securities in their own currencies to oil producers.

Contrary to scare stories about the Arabs buying up America — or other countries — OPEC members do not act in concert and have followed some quite different investment policies. The two largest surplus countries — Saudi Arabia and Kuwait — follow notably divergent investment strategies.

The Saudis have been particularly conservative. About 40 percent of their assets are held with foreign banks, with the remainder mostly in government securities; they also have large holdings in commercial paper of top-rated private borrowers. While this approach is politically safe, the Saudis have certainly suffered from the high inflation rates of the late 1970s and early 1980s.

Kuwait, on the other hand, has been much more aggressive in seeking investments with higher yields, and has led other OPEC members in its equity holdings. These have often caused controversy, particularly in the United States, where there have recently been scare stories about the extent of Kuwaiti shareholdings in industrial companies. But while Kuwait aims for diversification and a good return, its strategy remains conservative and it does not indulge in speculation.

In their efforts to diversify away from dependence on the United States (Continued on Page 14S)

different policies.

Investment Firm  
For this reason, a group of young Muslim economists in 1978 put their Western-acquired expertise at the service of the Islamic Investment Co., a new venture set up by Saudi businessman Prince Mohammed al-Faisal al-Saud. The company was to operate in strict accordance with Islamic law, which means basically that interest on capital, deposited and borrowed, is forbidden. Profit accruing from money being put to work, on the other hand, is acceptable.

At a time when interest rates in the Western banking system have been at record levels, such a proposition may seem less than attractive. But Hassan Abdul Qader, director of the Islamic Investment Co.'s head office in Sharjah, United Arab Emirates, said that the new company had proved the opposite.

The IIC set its sights not on the wealthy investor who has links with the international money markets but on the man in the street — millions of Moslems who have probably never thought of putting their spare money to work or have not had the channels to do so. Within three years, the IIC had a working capital of more than \$70 million, representing more than 11,000 investors. Requests for branch offices to be opened were coming in from the 43-nation Islamic world, and from countries as far apart as Australia and Britain, where the exiles were not only Moslems.

Today things have changed. Public expenditures have decreased, as most infrastructure is now in place. There were also the sociological problems created by the inflow of foreign labor in large quantities into an area of small indigenous population.

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Also gaining importance among individual investors is the degree of complementarity that his investment will have vis-a-vis his present business or existing assets. Individuals tend to invest in what they know, sometimes to the detriment of diversification.

Outsiders believe that prestige is a crucial factor for Arab investors. It is in many ways a secondary consideration, and has become even more so since a number of publicized transactions have led most investors to become more low-keyed and secretive.

There are a number of new investment companies, particularly in Kuwait and the Gulf, whose aim is to channel the investments of individuals and to create an instrument with know-how and expertise.

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It is too early to judge the results of existing investment companies, as most of them do not have any management. They will be more conservative in their investment approach and will emphasize income (to pay dividends) rather than capital gains, and select less risky investments to avoid public criticism. Ask (Continued on Page 8S)

### Islamic Financing Offers Alternative to West's Way

By Ken Whittingham

FOR YEARS, the developing world, led by the Arab oil-producing states, has been calling for a new economic order. The call won some sympathy in the industrial nations, but the much-discussed Brandt report gathers dust.

A recent meeting in Paris to discuss the fate of the less developed countries (LDCs), jargon for the chronically poor, produced platitudes but offered no solutions. The advanced industrial nations, pleading recession, will not willingly change the world economic order. For all their much publicized surplus wealth, the Arab oil states, with total revenues amounting to a small fraction of the Organization for Economic Cooperation and Development income, cannot alone change the world. A radical solution is required if the poorest developing nations are to be given a chance to move from the bottom rung of the economic ladder.

When people talk of the Islamic renaissance, their minds are usually focused on the events in Iran, which have little to do with the spirit of Islam or the aspirations of the vast majority of Moslems. The real Islamic renaissance lies elsewhere: in a determined attempt by the people of the Islamic nations to run their affairs in accordance with the principles and directives of Islamic scripture and tradition.

This does not imply a backward approach to the problems of the modern world. The essence of the Islamic revival in recent years is a new confidence, partly because of the boost provided by oil revenues and partly because Moslems educated in the West believe that Islamic principles for business and society offer a fairer system with the same benefits.

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of 22 percent after management fees were deducted.  
In May, the board of directors of the Islamic Investment Co. met at its European headquarters in Geneva to discuss the phenomenal expansion of business. It was decided to form Dar al-Mal al-Islami (the Islamic Finance House).

Board of Experts

The new company, registered in the Bahamas during the month of Ramadan (July, 1981) with an authorized capital of \$1 billion, incorporates the Islamic Investment Co. and a number of other financial activities, all run in accordance with Islamic precepts and under the supervision of a board of Islamic legal experts. The honorary founders of the company, headed by Prince Mohammed al-Faisal, include the presidents of Sudan, Pakistan, Guinea, Malaysia

and the United Arab Emirates, the Emir of Bahrain and other prominent persons from all over the Islamic world.

This and other moves to partly replace the interest-based Western financial system are not propaganda but hard-headed business with a strict profit motive. By the very nature of the financial operations, it is of great potential interest to the developing world.

The Islamic Investment Co. has already become involved in diverse projects from land reclamation in Sudan to the purchase of reefer ships. The aim is to place investors' funds in the widest possible spread of economic activities on a wide geographical basis.

The company does not put its funds into infrastructural development projects, which have long-term economic utility for a country. (Continued on Page 15S)

### OPEC-Western Movement Of Capital Is Improving

By Johnny Rizq

THE ATTITUDE of the International Monetary Fund to the Arab oil-exporting countries has undergone a fundamental change since the first oil price rises of 1973.

Countries that were then painted as villains responsible for world economic disorder are today accepted as important members of the international financial community. Of course, major Organization of Petroleum Exporting Countries dollar surpluses are still with us — matched by current-account deficits in the non-oil developing countries and, to a lesser extent, in the industrialized West. But the severe bottlenecks in capital movements in the mid-1970s have given way to a relatively smooth recycling process, described in the latest annual IMF report as reassuring.

Much of the credit for this improvement must go to the international banks and financial institutions that have adapted well to the need for large-scale international lending. More recently, the IMF itself has shown a desire to enlarge its role and play a more direct part in the recycling process. This means that the IMF had to increase its resources substantially, in line with the size of the payments deficits that its members were experiencing. Since the early 1970s, the current-account deficits of non-oil exporting countries have climbed steadily from about 3 percent of their gross national product to 7 percent. The combined current-account deficit of non-oil developing countries is projected by the IMF at \$97 billion this year, against \$82 billion in 1980.

About a year ago, the fund began its quest for new sources of financing, concentrating its efforts on official bilateral borrowing from countries with strong balance of payments positions. It was looking for 6 billion to 7 billion special drawing rights annually, which IMF Director Jacques de Larosiere said was needed to meet all the demands made on the fund.

Turning Point

The turning point came this spring when a major deal was concluded in which Saudi Arabia undertook to provide the IMF with up to 4 billion SDRs a year — more than half the fund's stated requirements — for two to three years. That loan agreement ranks as the largest ever but was indicative of the scale on which the Saudis and other Gulf oil producers were willing to lend a hand in stabilizing the international monetary system. Mr. de Larosiere spoke of the "promptness and the constructive way in which the Saudi Arabian authorities responded to the fund's proposals" and called the deal "an outstanding example of international cooperation."

But that deal would never have been possible had not the IMF in turn been ready to accept basic changes in its character and operation. To go to the market, it had to make its borrowing terms considerably more attractive. The IMF image and that of its unit of account, the SDR, have been bettered if the Saudis and others were going to be persuaded to contribute sufficient funds to the fund.

The IMF early this year reduced the number of component currencies that make up the SDR "basket" from 16 to five (dollar, Deutsche mark, pound sterling, Swiss franc and Japanese yen) — a commercial combination as opposed to a diplomatic one. It then increased the interest paid on SDR-denominated deposits from 80 percent of the weighted average interest rates on component currencies to 100 percent.

It took one more major inducement to persuade the Saudis that a deal with the IMF would be worthwhile. It was agreed that Saudi Arabia's IMF quota — which determines its voting power in the organization and its right to borrow funds — should be raised from 1.04 billion to 2.1 billion SDRs. This meant that Saudi Arabia became the sixth-ranking country in the IMF hierarchy behind the United States, Britain, West Germany, France and Japan, and higher than Canada, Italy, China and India. The Saudis also won a permanent seat on the IMF executive board — long-overdue recognition of Saudi Arabia's economic and political status.

Of course, the Saudi loan to the IMF should not be seen in isolation. Part of the fund's resources needed had been met by borrowings of \$1.2 billion this year from the industrialized countries. And there is speculation (Continued on Page 12S)

### ABC: Goal Is to Become The Arab 'Bank of Banks'

By Robert Bailey

IN LITTLE more than 18 months since its inception, Arab Banking Corporation (ABC) has become a major force in international banking and in recycling the petrodollar surplus. ABC is a joint venture by Kuwait, Libya and Abu Dhabi. It was established on Jan. 17, 1980, in Bahrain by a special law (Emiri Decree Law No. 2) as a joint stock company. The bank, capitalized at \$1 billion, is Bahrain's biggest offshore banking unit and operates both as an offshore bank and a commercial bank.

ABC directors say its creation was motivated by a desire to achieve for Arab banks the major role in the international market. The directors also said that Arab banks, while they maintained a presence in the international market for more than a decade, were restricted in their activities by their capital structure, which did not allow them to absorb deposits of a sizable amount.

Some \$750 million of ABC capital has been paid, with equal contributions coming from Kuwaiti Finance Ministry, Libya's Finance Secretariat and the Abu Dhabi Investment Authority. Chief executive and president, Abdullah al-Saudi, said, "Countries which enjoy a balance of payments surplus

have been criticized for their negative attitude toward risk-taking and their tendency to deposit funds only with leading international banks. These banks, on the other hand, are continually complaining of having to recycle this money to the Third World, where they face more risks. The creation of ABC can perhaps be seen as the beginning of a more positive attitude toward the development of real participation in direct risks."

Market Strength

In less than two years, ABC has clearly displayed strength in the international market. Five months after it began, the bank co-managed a \$250 million loan for the Arab Development Bank. In the first half of 1981, ABC rated ninth in the International League Table of lead-managers as drawn up by the Caploan International Finance Data of the United States. ABC was listed as having participated in 34 loans worth \$9.541 billion.

One of the main factors that has assisted ABC's accelerating role in the international market, apart from its high capitalization, has been the composition of its board. All the members are professional bankers and financiers. Mr. al-Saudi is a former chairman of the

ABC's growth during the first year of its existence was staggering. In the first half of 1981, it was the most active Arab bank in syndicated loans, handling \$9.541 billion in loans. Its performance supported the theory that it was founded as a result of Kuwaiti disillusionment with the speed of GIB's growth. Having failed to ensure more aggressive policies for GIB, the Kuwaitis then joined up with Libya and the United Arab Emirates, the two other shareholders in ABC.

Whether the story is true has not been confirmed, but certainly ABC's growth has been remarkable. Ironically, the emergence of ABC may have contributed to a renewed surge of dynamism within GIB. In the first half of 1981, it was the world's 17th most active bank in syndicated loans, according to the Paris-based Caploan International Finance Data, handling loans worth \$6.690 billion.

Consortium Banks  
Arab bankers will be as interested in comparing ABC's and GIB's performance as a category of banks — the state-owned banks — as with their performance as ostensible rivals. Their management appears to be much simpler than that of the conventional consortium banks which represented the first phase of pan-Arab banking.

The consortium banks have had, as shareholders, a variety of national and commercial banks. They are often characterized by the complexity of these shareholdings. The Paris-based Union de

### Arab Investor: What's He Doing, Where's He Going?

By Roger Azar

THE SHARE of Europe in the flow of Arab investment, will certainly diminish progressively over the next few years. The emphasis will be on the Arab world and the far East.

Outside the United States, Europe has been a natural choice for Arab investors. It was one place they knew and had conducted business. But with the increase in investment sophistication and the opening up of other areas of more profitable investment, this trend is likely to change to the detriment of the West, where there is still resistance to Arab investments. It will indicate more direct investments and less portfolio investment, which in itself will be less favorable to the West.

To give a profile of the private Arab investor, individual or institution, his criteria for investment and the nature of funds at his disposal, plus his objectives, is difficult. There is no significant track record, but the psychological and publicity impact of private Arab direct investment has been far in excess of the true impact. The size of these investments has been small by any standard and their nature rather mundane.

Vast Wealth

There has been a vast accumulation of wealth in the hands of the private sector. The large domestic expenditures of governments over the last few years, coupled with the existing small number of local entrepreneurs and domestic business practices, led to great riches among relatively few people (the agents for large corporations and projects).

Because business grew quickly, businessmen initially in these countries were not only in need of the cash they generated, but were even short of funds to put back into their businesses in order to take advantage of the considerable opportunities. Until the relative slowdown of public expenditures and the

squeeze on profit margins that resulted from increased competition, very few surplus funds were available in the hands of private individuals for investing abroad. The funds available were used for the acquisition of private estates abroad and other forms of conspicuous consumption.

Today things have changed. Public expenditures have decreased, as most infrastructure is now in place. There were also the sociological problems created by the inflow of foreign labor in large quantities into an area of small indigenous population.

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There are a number of new investment companies, particularly in Kuwait and the Gulf, whose aim is to channel the investments of individuals and to create an instrument with know-how and expertise.

Most of these companies, although there are notable exceptions, have turned out to be speculative vehicles for their founders. The issue price of the share would always increase substantially a few weeks after closing for no obvious reason, since the company had not started operating, and the sector in which it planned to operate was so vast that one could not readily predict what the outcome of its investments would be.

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**KUWAIT**

**Al-Hamad Appointment Puts Force Behind Bid To Dominate Gulf, Reduce Dependency on Oil**

By Shakib Otaqui

KUWAIT'S ambition to become the Gulf's major financial market — and at the same time reduce its dependence on oil revenues — received a hefty boost with the appointment in March of Abdel-Latif Yousef al-Hamad as finance and planning minister.

In his 19 years as head of the Kuwait Fund for Arab Economic Development, Mr. al-Hamad established an enviable reputation for hard-headed realism in evaluating aid projects, combined with an efficiency and lack of bureaucracy that has made the fund a favorite with borrowers. In his new job, he remains committed to maintaining Kuwait's traditional free-enterprise economy and encouraging the development of the financial markets by the private sector. But he will doubtless be ruthless with institutions that pursue their short-term interests at the expense of Kuwait's longer-term strategies.

Mr. al-Hamad has been careful not to commit himself to specifics. In several interviews since his appointment, he has repeatedly said that he was too new in the job to offer detailed statements. But his impact on the financial markets has already been dramatic.

Trading on Kuwait's budding stock exchange has boomed, with turnover exceeding 1 billion Kuwaiti dinars in the first half of this year — almost equaling the 1980 total of 1.3 billion. It seems likely that by the end of the year turnover will beat the 1979 record of 1.8 billion dinars.

Kuwait's major rival for financial dominance in the Gulf, Bahrain, has had to get into the habit of placing funds with offshore banking units (OBUs) in Bahrain, taking advantage of interest rates on dollar deposits almost double the 10-percent maximum fixed by Kuwaiti law. This drain has been virtually eliminated — the Central Bank of Kuwait has been notably tough in threatening to withdraw "swap" facilities from offending banks. In addition, foreign deposits are not considered liquid assets for reserve-ratio purposes, which makes them less attractive.

Nevertheless, the 10-percent interest ceiling remains something of a hindrance in developing the financial markets. The two bond issues that recently reopened the Kuwaiti dinar market adhered to the ceiling but had to be priced at a discount to yield 11 percent to 11.5 percent. Similarly, commercial bank loans to local borrowers are usually loaded with front-end fees to give them a reasonable yield above rates the banks have to pay to attract deposits.

**Interest Rates**

Mr. al-Hamad has not committed himself on the subject of interest rates, but it will prove difficult to greatly raise the ceiling. This would have an inflationary impact on the economy, while making it more difficult to reconcile the financial system with the Islamic ban on usury. So the problem of retaining funds in Kuwait will remain as long as foreign-exchange movements continue free of control and investors find more attractive yields abroad.

This lies behind Mr. al-Hamad's recent cautious but steady exposure of the dinar to the workings of world financial markets. He has found it necessary to provide alternative outlets for rich Kuwaitis' appetite for financial investment. As well as reopening the dinar bond market, he permitted a precedent-setting loan to Yugoslavia, which for the first time was denominated partly in Kuwaiti dinars.

When the \$250-million loan was syndicated in June, Kuwaiti interest rates were half those payable on Eurodollar deposits, making it particularly attractive for the hard-pressed Yugoslavs. Mr. al-Hamad then commented that he would allow more such loans "to our

friends, such as Yugoslavia," indicating that political considerations were perhaps as important as financial ones. Whatever the reasons, the move represented another step toward removing the dinar's insulation from world markets.

**'Playground'**

The Yugoslav loan was co-managed by the three Ks — Kuwait International Investment Co., Kuwait Investment Co. and Kuwait Foreign Trading Contracting & Investment Co. All are active both in the Kuwaiti dinar market and in the Euromarkets abroad, mostly specializing in bond issues. The first is privately-owned, while the government holds 50 percent and 80 percent of the other two, respectively. Within Kuwait, they are backed by the Arab Company for Trading Securities, which is the market-maker for the dinar bond secondary market.

The stock market is not so well-served and has been described as "something of a playground for a relatively small, but extremely wealthy, group of Kuwaiti investors." It has been a speculator's paradise, with investors more concerned with quick capital gains than with the generally mediocre dividend yield. Indeed, many companies used to be floated with little purpose other than riding the speculative bandwagon.

Steps have been taken to professionalize the stock market, perhaps best exemplified by the magnificent exchange building under construction at a cost of more than \$40 million. To control speculation, the government first banned the floating of new Gulf companies — firms registered in other Gulf countries whose main purpose is to supply shares to the Kuwaiti public. More recently, a ban on the trading in Kuwait of shares of companies formed abroad was announced in July.

To compensate, the government has decided to allow the listing on the exchange of properly constituted Gulf companies, and to allow the listing of previously closed local companies. More importantly, permission was granted in August for the formation of a share-trading company with a capital of 50 million Kuwaiti dinars. More such companies are likely to be licensed by the end of the year.

**LEBANON**

**System Proves Its Resiliency Despite War, Economic Problems**

By John Roberts

THERE WAS a time when Beirut was the undisputed champion of the Arab banking world. Although Bahrain has probably taken that title, even a cursory look at the Beirut banking scene shows that the Lebanese capital is still a good place to do business.

By the end of 1980, bank deposits in the 80 commercial banks in Lebanon totaled 27,303 billion Lebanese pounds, of which 24,824 billion was from private sector deposits.

According to the Banque du Liban, the central bank, private sector deposits rose an impressive 20 percent a year between the end of 1974, the last year of normality in Lebanon, and the end of 1980. Even if the decline of the Lebanese pound against the dollar is taken into account and growth is calculated in dollar terms, it averages 11.1 percent a year. There is no shortage of money in Lebanon, despite the financial crisis engulfing the new government, and liquidity levels in the private banks remain high. Trade is flourishing and the banks help to finance it. It is industrial activity that is declining.

Several foreign banks are thus faced with the possibility that they might lose money on their Beirut operations. But there are distinct differences between the foreign banks. In general, the British and U.S. banks are seen to be suffering from a decline in the real value of total assets, whereas those of the French banks are rising (the British Bank of the Middle East, a

subsidiary of the Hong Kong and Shanghai Bank, is a notable exception).

**Declining Deposits**

Banks that showed declines in their deposits in 1980 included Al-Mashrek Bank, Arab-Libyan Tunisian Bank, Moscow Narodny Bank, Bank of Kuwait and the Arab World, Near East Bank and Toronto Dominion Bank. Chemical Bank (Middle East) registered zero growth, while Chartered Bank's growth in deposits was eclipsed by the rate of inflation.

During the civil war, the banks had to close twice — between December, 1975, and February, 1976, and between March, 1976, and January, 1977. More than one-third of the 72 offices and branches of foreign banks operating in the country were destroyed or damaged. Even today, the heart of Beirut's former banking district displays the bombed-out remains of some branches, although others have restored their facades and reopened.

The civil war, if anything, gave ordinary Lebanese increased confidence in their banking system. After the collapse of the Intra Bank in 1966, there was a flood of money into the foreign banks operating in Beirut. In 1969, only 23 percent of bank deposits were lodged with Lebanese banks. But the temporary withdrawal during the war of some well-established foreign banks, notably Japanese ones, resulted in local banks holding 42 percent of total deposits in 1978. The share held by foreign (non-Arab) banks declined be-

tween 1969 and 1978 from 40 percent to 12 percent.

Since then, the foreign banks have improved their position, but at the expense of Lebanese banks under foreign control and of Arab banks rather than of purely Lebanese banks. Moreover, foreign banks are again cutting back their operations. Canada's Toronto Dominion Bank has pulled out altogether, while in 1980 Chase Manhattan cut back its staff, a step that Bank of America took early in 1981.

Richard Gilgan, the manager of the First National Bank of Chicago branch in Beirut, said that the U.S. banks were doing their best to maintain their presence without increasing their expenses. In particular, he said, the problem was one of stable to declining income against rising expenses.

The optimism that accompanied the formal end of the civil war in November, 1976, has been tempered by the realization that Lebanon is in the middle of a prolonged period of no war, no peace. The divisions in the country have affected banking operations. The mushrooming of bank branches that has been characteristic of the local banking scene turns out to reflect not so much the growth in business as the increasing division of the nation.

Yet the banking system has shown considerable resilience in coming to terms with a security situation that would be intolerable in other business-oriented countries. Basic services are maintained in the most trying of circumstances.

Customer nervousness about the state of the country has led to a continuing growth of on-call deposits, making banking operations more dependent on the political and security climate. Moreover, the government's need to ensure that as few private companies go bankrupt as possible has led it to pass laws that make it virtually impossible for the banks to force even long-standing debtors to settle their accounts.

What has ensured the banking system's survival has been the country's laissez-faire economic system. With government interference virtually removed, trade has flourished as never before. But it is unregulated trade, and its profits would not be deposited with the banks were it not for the strict secrecy of accounts. Moreover, while the civil war and subsequent years of unrest have increased emigration, this in turn has led to an increase in the flow of remittances from abroad.

The chief characteristic of the banking scene remains its flexibility, its ability to surmount obstacles. When telecommunications are down, couriers shuttle to London, Paris and Cyprus. The range of services remains impressive. Accounts may easily be opened in any of the major foreign currencies and in several of the more obscure. Indeed, since 1974 there has been a 230-percent increase in foreign-exchange deposits, against a 131-percent increase in local-currency deposits. By the end of 1980, roughly 37 percent of deposits were dominated in non-Lebanese currencies.

**A Look at the Arab Investor: What's He Doing and Where's He Going?**

(Continued from Page 7S)

any investor how he wants to invest his surplus monies, and you would expect the answer of at least half in direct investments. But when you look at his assets, you will discover that outside of what he possesses in his own country, most of his network is with a bank in deposits or bonds or stocks. With the increase in sophistication and better management, the Arab investor will soon be moving away from portfolio investments.

A look today at a number of selected and fairly representative portfolios of Arab investors shows that more than half the portfolio is in dollars, the rest divided into a number of other currencies.

The largest part of the deposit is in U.S. term deposits. This is due to present high interest rates and a preference for short-term investment and liquidity. Some investors, who have been on one-

three-month deposits for years, still worry about being liquid enough to take advantage of the excellent opportunity that is going to occur in the very near future.

Bonds and stocks today constitute about a quarter of the portfolio of the average Arab investor. The proportion is probably higher than they wish, but they don't want to suffer losses on some low-coupon bonds they have, or lose money on some of the glamorous stocks they bought that turned out not to be so glamorous.

The rest of the portfolio is mostly in commodities. This type of investment became very popular among Arab investors when the metal markets (particularly silver) rose sharply last year. Most of the investors were obviously disappointed with the ending of the price rise. They kept their positions, however, hoping for a future recovery. During the next boom in the commodities market, there will be a number of Arab investors in the front row, but much wiser and more careful.

With direct investments, real es-

tate is the area the Arab investor knows well. A large proportion of fortunes in the Arab world are based on real estate. It is a hedge against inflation and can be bought in periods of recession and is sure to appreciate in times of prosperity. For Arab investors that have the staying power, it represents an ideal long-term investment.

Once you have determined the rules of good location, judging the value of a piece of real estate is relatively easy. Investors who have never heard of the cash-on-cash investment criteria, have picked up some of the nicest real estate deals.

Another advantage of real estate is its visibility and its ease of identification. It is a lot easier to show your friends a prestigious building in Houston than a forward contract in copper or a dollar bond for a well-known borrower.

The amounts invested in real estate in the West have been relatively large. Investors usually started by buying a house for themselves and their families, thus learning about that particular market. Then

they typically bought a large piece of property and compared it with the purchases of friends, who were doing the same in other cities. Slowly the investor got to know the brokerage channels and was able to identify "good buys," a concept very important to the Arab investor.

The next step was to look for growth areas, i.e., places where capital gains were possible over a relatively short period of time. Friends got together to pool funds and talk about diversifying geographically and by type of real estate. By then, they had acquired enough knowledge to become sophisticated investors, although not by Western standards. Real estate will continue to be favored in the near future, but a much larger proportion will be invested outside the West and development will be preferred to already-finished buildings. The Arab investor has equity money and is willing to take a development risk.

Roger Azar is president of Azar S.A., Paris.

**GIB Activity, Profits Rise**

(Continued from Page 7S)

South American, and Asian commercial banks.

The last year has seen the start of a new wave in consortium banking. The Kuwait and Asian Bank was set up in 1980, while in April, 1981, the United Gulf Bank was established in Bahrain, on an offshore basis, to participate in the Euromarkets.

Both banks have shareholders in common, notably the Kuwait International Investment Company and four insurance firms: Kuwait Insurance Company, Warba Insurance Company, National Insurance Company and Gulf Insurance Company. As with most banking developments in the Arab world, their performance will be watched closely, both by bankers and commercial companies seeking to take advantage of Bahrain's offshore facilities.



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# in the ARAB WORLD

## SAUDI ARABIA Kingdom's Market Continues to Grow at 30% Annual Rate

By Edmund O'Sullivan

THE SAUDI banking market continues to grow rapidly, reflecting double-digit economic growth and rising demands for banking services by the Saudi people.

Total bank assets on June 2, 1981, stood at 95 billion riyals, more than 7 percent above the level three months earlier. This suggests that banking continues to grow at about 30 percent a year.

Impressive as this figure is, it largely underestimates the size of the market for banking services in the kingdom, because it excludes business on the books of Saudi money changers — possibly about 25 percent of bank assets — and the role of banks based in Bahrain, Europe and North America that service the kingdom offshore.

Saudi-based banks fall into several categories. The first comprises the wholly-owned Saudi commercial banks: National Commercial Bank (NCB) and Riyad Bank, both based in Jidda. The NCB, founded in 1938, is the largest, with a total of about 12,245 billion riyals on its books at the end of 1980. It has more than 100 branches in Saudi Arabia and an offshore banking unit (OBU) in Bahrain.

is generally considered more conservative than the NCB. Nevertheless, it has benefited from the buoyancy of the non-oil sector of the economy, and recorded a 60 percent rise in assets in the 1980-1981 fiscal year, which ended in May, 1981.

Riyad Bank, which celebrates its 25th year of doing business in 1982, is 38-percent owned by the Saudi Arabian Monetary Agency (SAMA). This may explain why the bank handles the needs of some of the kingdom's largest public enterprises, including the state-owned oil and gas company PetroMin, Saudia and the pension funds.

Riyad has made a major foray into international banking through its 60-percent stake in Gulf Riyad Bank, another Bahrain-based OBU. The rest of the bank's shares are held by France's Credit Lyonnais. Like NCB, Riyad is focusing on the domestic scene for the im-

mediate future. It hopes to open 48 branches in the next two years, bringing the number of branches to 127. Computerization is helping provide better services to customers in the home market.

Lagging behind these two giants are the newly "Saudiized" banks — Riyad's Saudi American Bank (formerly Citibank); Al-Bank al-Saudi al-Fransi (formerly Banque de l'Indochine et de Suez); Al-Bank al-Saudi al-Hollandi (Algemeene Bank Nederland); Arab National Bank (Jordan's Arab Bank); Bank al-Jazira (state-owned National Bank of Pakistan); Saudi British Bank (British Bank of the Middle East, now a subsidiary of the Hong Kong Shanghai Banking Corp.); and Saudi Cairo (Banque du Caire, Egypt).

**Saudi American**  
Saudi American is probably the largest, having inherited Citibank's

active presence in riyal deposit markets. Assets increased nearly 1 billion riyals between Saudi American's inauguration in July, 1980, and the end of December, 1980 — a rise of about 13 percent.

With the establishment of Saudi American, the first phase of "Saudiization" was complete. This involved local investors acquiring majority shares of major foreign-owned banking operations in the kingdom. The formula, applied between 1975 and 1980, was for foreign ownership to be cut to 40 percent, with one exception: Bank al-Jazira, the first bank to be "Saudiized," now 35-percent owned by the National Bank of Pakistan.

Three foreign-owned branches continue to operate, although they are too small to have a great impact. They are Bank Mellat Iran, Banque du Liban et d'Outre-Mer and Pakistan's United Bank. SAMA wants them to "Saudiize" themselves eventually, although final plans have not been drafted.

Finally, there is the Saudi Investment Banking Corp. (SIBC), founded in Riyadh in 1977. Its priorities are finding projects in the kingdom where local funds can be invested.

**Making Progress**  
Finding investments has been more of a challenge than many expected. But bank executives say that they are making progress, which they expect will continue as the Saudi business community matures. SIBC's biggest single syndication so far was a combined 240-million-riyal loan and 334-million-riyal package for the Riyadh-based Saudi Agriculture and Dairy Co. this summer.

Like the other 12 banks, SIBC is a member of the Jidda, Riyadh and Dammam clearinghouses, although it does not accept personal deposit business.

The issues confronting the banking system are meeting the demand for personal banking services throughout the kingdom, fending off the competition from well-established offshore banks, and growing without breaching SAMA's tight controls on bank capital, lending and deposit-taking.

Signs that the domestic banks still cannot match the know-how and capacity of offshore banks is evident with the continued flow of major syndications to Bahrain, particularly for off-balance-sheet bank guarantees for construction companies working in the kingdom. Nevertheless, many analysts agree that non-Saudi banks will be slowly squeezed out of the kingdom.

These are tight prudential ratios by international standards — for example, the international average for the deposit-to-capital ratio is about 20. SAMA has also imposed price ceilings for a range of banking services, including letters of credit fees, and checking account and transfer tariffs. The objective is to help spread banking profits to the masses, Mr. al-Quraishi said.

**Banker's View**  
From a banker's point of view, the system of regulations means that Saudi banking is the most tightly supervised area of the private sector. Some complain that the rules are preventing domestic banks from growing as fast as the economy requires. They are particularly critical of the government's slowness in allowing banks to expand their share capital, the essential basis for growth within the present supervisory framework.

The lack of regulation of the money changers — notably the Al-Rijhi Company for Currency Exchange and Commerce — is a further irritant. SAMA says that they are not banks but the consensus in the banking community, within Saudi Arabia and offshore, is that the money changers are full participants in the kingdom's financial markets.

Others argue that SAMA's rules are just what banking needs at this stage, when Saudi Arabia's booming economy could encourage local banks to over-commit themselves.

## MOROCCO

### Ambitious New Economic Plan Hindered By Early Imbalance in Imports, Exports

By Michael Fros

THE NEXT five years will be a testing time for the managers of Morocco's economy as they steer through a development plan to overcome serious economic imbalances while at the same time easing the social disparities that led to rioting in Casablanca in June.

The main aims of the 111-billion-dirham 1981-1985 plan — to be published this autumn — are to curb imports of fuel and food, to boost exports and to revive industrial investment. But the plan looks like it is getting off to a bad start.

The trade deficit increased sharply in the first half of 1981, with imports rising by almost 29 percent and exports by only 15 percent compared with the first six months of 1980. Stringent conservation measures succeeded in holding down the cost of crude oil, the major import, in 1980, but costs in the first half of 1981 again soared to 2.746 billion dirhams from 2.082 billion in January-June, 1980. Oil imports now seem likely to reach at least 5 billion dirhams in 1981, from 3.961 billion in 1980.

Given the need for energy to fuel industrial expansion, a medium-term reduction in the oil bill will depend on the success of the \$38 million to be spent on oil and gas exploration during the 1981-1985 plan. Longer-term improvements hinge on a program of investment in nuclear energy and oil shale, which are planned to meet 51 percent and 19 percent, respectively, of energy needs by the year 2000. But these goals are tenuous because large-scale production of energy from these sources will not start until at least the early 1990s.

**Food Imports**  
The second factor contributing to 1981's poor trade performance is the continuing heavy reliance on food imports, which totaled 2.461 billion dirhams in the first six months of this year — 43-percent higher than in the same period last year.

The government's management of agriculture was one of the greates singled out for criticism in a World Bank report prepared earlier this year. Agriculture accounts for only about 17 percent of gross domestic production of about \$16 billion a year. Output has grown by about 2 percent a year since independence in 1956, a very low rate for a country so rich in water and manpower.

The stagnation of the agricultural sector is the main obstacle to economic growth, the World Bank report said. The concentration of

government credit in fruit and vegetable exports has hindered investment in industry and in farms producing food for local consumption. The cost of sugar and cereals — the main food imports — has far outpaced the growth in fruit and vegetable exports, which account for almost 30 percent of export earnings. In the first half of 1981, wheat imports rose sharply to 951 million dirhams from 646 million in the first six months of 1980, while sugar imports more than doubled to 781 million dirhams from 319 million.

Measures to counter these trends during the 1981-1985 plan include building 12 dams to irrigate a further 189,000 hectares, much of which will be used for cultivating cereals. Sugar production could meet almost 90 percent of demand by 1985, against only 53 percent in 1980, with the completion of a sugar beet refinery, three sugarcane refineries and substantial extensions to existing refineries.

**Phosphate Production**  
Just as Morocco suffers from an over-reliance on strategic imports, its economy is also very vulnerable to fluctuations in the production and value of the major export, phosphates. Morocco is the world's biggest phosphate exporter and the third-largest producer, and about 25 percent — 26 billion dirhams — of investment in 1981-1985 is to go toward developing the extraction and processing industries.

Recent performance has been disappointing. Revenues totaled little more than 3 billion dirhams in 1980, down from the 1974 peak of 4 billion and barely enough to cover food imports. This occurred despite a recovery in prices from \$33 a ton at the end of 1979 to \$47 a ton at the end of 1980.

The importance of phosphate exports to the economy was illustrated by the effects of the 1975 slump in prices. In 1973, Morocco used its position as the world's largest exporter to support a quadrupling of the average price of phosphate rock to \$53 a ton. This was successful for two years until the high prices enticed marginal U.S. and other producers into the market. After peaking at \$60 a ton in 1975, average prices collapsed overnight to \$35, settling down to the 1979 price of \$33. At least some of the blame for the slump, which brought immediate and severe difficulties for the Moroccan economy, must be borne by the state phosphate monopoly, the Office Cherifien des Phosphates, the

Office Cherifien des Phosphates, which has recently been criticized for poor long-range planning by both the World Bank and Western commercial bankers.

Despite these severe trade difficulties, Morocco has been able to improve its payments position, largely because of major support from Western allies and from the conservative Arab states — particularly Saudi Arabia. The 1980 balance-of-payments deficit of 117.2 million dirhams was slightly lower than 1979's 125.9 million, while the current-account deficit fell to 5.588 billion from 5.968 billion.

**IMF Credit**  
Much of the current-account deficit was covered by public borrowing and the first part of the \$1.1-billion International Monetary Fund credit announced in October, 1980, and restructured in Morocco's favor in early 1981. Borrowing in 1980 totaled 7.1 billion dirhams, primarily from Arab countries (2.753 billion dirhams), the capital markets (2.678 billion), France (668 million), the World Bank (279 million) and the United States (276 million). The price for this reliance on credit was an increase in external public debt servicing to 4.2 billion dirhams in 1980 from 3.16 billion in 1979. About 2.17 billion dirhams of the 1980 total was interest, up from 1.52 billion in 1979. By the end of 1980, the external debt was estimated to total \$7 billion and the service ratio to be running at more than 20 percent.

Government spokesmen say that they hope to restrict borrowing on the Euromarkets during the 1981-1985 plan to a total of \$1 billion, but Western bankers estimate that the international markets will be asked to provide at least \$600 million a year. It therefore seems inevitable that the foreign debt will be an increasing burden. An additional strain will be imposed beginning in 1983, when repayment of the 10-year IMF loan — its second-largest to a developing country — will fall due. The government will also come under increasing pressure to reach a political settlement in the Western Sahara war against the Polisario, unofficially estimated to be costing \$3 million a day.

Signs that Morocco is losing some of its appeal for longer-term money appeared toward the end of 1980, when the Office Cherifien des Phosphates had to settle for a \$170-million state-guaranteed syndication at a split of 1-1/8 percent above Libor — a smaller sum and at less favorable terms than the government had hoped for.

## Role of Saudi Monetary Agency Is Likely to Expand

By Edmund O'Sullivan

THE DOMESTIC role of the Saudi Arabian Monetary Agency (SAMA) is likely to expand in the 1980s in line with the growth of the kingdom's non-oil economy — this despite the absence of most of the usual monetary policy instruments at the disposal of central banks elsewhere.

SAMA is more familiar to Western observers as the keeper of the keys to the kingdom's treasury. Due to higher oil prices and larger than anticipated oil exports — because of the Gulf war — the kingdom's trade surplus rose to a record \$46 billion in the year ending in May, 1981. Slower than planned increases in public spending led to the highest-ever budget surplus — estimated to be just under 120 billion riyals (or 15,000 riyals for every resident of Saudi Arabia) — in fiscal 1980-1981.

The result was a further major increase in SAMA's foreign assets. By the middle of fiscal 1980-1981, they had risen to about \$84 billion, against \$66.7 billion six months earlier, financial sources say. Plans for a 46-percent increase in public spending in fiscal 1981-1982 — to stimulate further non-oil gross domestic product growth and imports — should lead to a major reduction in the trade surplus. Assuming that oil production averages 9.25 million barrels a day, the surplus would fall to about \$28 billion in 1981-1982 and \$10 billion

in fiscal 1982-1983, SAMA officials estimate.

Nevertheless, these figures — which are considered an underestimate — will mean a further major rise in SAMA's responsibilities and foreign investment portfolio. This is why the world's investment banking community is beating a path to the door of SAMA's governor, Abdel-Aziz al-Quraishi.

**Conservative Strategy**  
Many have returned home empty-handed because SAMA pursues, a generally conservative investment strategy and is not easily persuaded to change course. According to financial sources, it has concentrated on placing funds with foreign governments, favoring oil deficit countries such as Japan and West Germany. Signs of willingness to diversify have emerged with unconfirmed reports that the agency plans to open a \$1-billion Japanese equity portfolio.

The expansion of SAMA's overseas portfolio coincides with a steady rise in the agency's domestic responsibilities. Even though it has effectively assumed most of the functions of a national monetary authority, by conventional criteria SAMA does not qualify as a full-fledged central bank. The most obvious deficiencies are the absence of government debt instruments — beloved by Western central banks as a means of draining or injecting liquidity — re-

discounting facilities and the ability to control interest rates directly.

The absence of treasury bills and government bonds is understandable — the government has no need to turn to the private sector for financing public spending. SAMA cannot use the interest rates because — technically — they do not exist as far as the government is concerned.

Nevertheless, SAMA has a sophisticated — if unashamedly Keynesian — appreciation of unstable money growth and how the banking system can effect domestic liquidity. In fiscal 1979-1981 (two fiscal years), the money supply grew at an annual rate of 15 percent-20 percent, which SAMA officials say is broadly satisfactory. They want to see an approximately similar growth in the remaining years of the third plan (1980-1983), which was launched in May of last year.

**Strict Regulations**

To ensure that the aggregates do not start exploding — as they did during the first great Saudi boom in the mid-1970s — SAMA imposes strict regulations on domestic banking, including a 7-percent reserve requirement on demand, savings and time deposits; a 15-to-1 ceiling on the deposit-to-capital ratio, and a liquid-asset-to-deposit ratio of 25 percent. Lending to a single borrower may not exceed 25 percent of bank capital and reserves.

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## SYRIA Government Maintains Effective Control of System

By John Roberts

**B**ANKING in Syria is almost exclusively a state-run affair. The only general exceptions are the services provided by money changers in the streets and bazaars of the country's towns and cities. In the nationalization decrees of 1961 and 1963, the government took control of non-Syrian banks' operations to make the country's monetary policy more efficient and more amenable to central planning needs. Now that economic liberalization is fashionable, gradual moves are being made to ease the government's tight control of the system — although the day when foreign banks can operate again widely in Syria is still in the future.

The banking reforms of the 1960s, when the present Baathist regime began stamping its image on the country, placed all commercial banking operations under the auspices of one bank, the Commercial Bank of Syria. The bank now has branches in the major towns and border points, and changes money at the main hotels. Special services for Syrian customers are mainly handled by four other banks: the Popular Credit Bank, the Real Estate Bank, the Agricultural Cooperatives Bank and the Industrial Bank.

The Commercial Bank handles external trade financing, apart

from defence supplies, but shares trade financing with the Popular Credit Bank. The Real Estate Bank lends to housing cooperatives, hotels, tourist establishments and real estate companies, while the Industrial Bank, as well as providing funds for industrial development, handles demand and time deposits. The Agricultural Cooperatives Bank, which dates back to Ottoman Turkish times, naturally lends funds for agricultural schemes.

### Interest Rates

Traditionally, Syria has followed a policy of low interest rates. But the government of Prime Minister Abdel-Rauf al-Kasbi has gradually sought to raise interest rates to more realistic levels. In general, interest rates still favor the public sector, with private account holders having to pay between 1 percent and 1.5 percent extra on overdrafts and up to 2.5 percent on loans.

In 1970, the government permitted both Syrians and foreigners to open foreign currency accounts with the Commercial Bank of Syria, using funds generated from outside the country. Foreign trade controls were eased, and private businessmen were given a letter of credit for up to one year, without anyone asking the source of his foreign exchange. This practice was ended on

April 22, 1981, when Commerce and Industry Minister Mohammad al-Atrash issued new regulations establishing a parallel financial market for use by private sector businessmen. The new measures stated that all private sector importers, apart from those fulfilling government contracts, would first have to place funds in escrow with the Commercial Bank of Syria, or with other recognized Syrian banks. To ensure that these instructions were carried out, government authorization was made mandatory for all imports.

At the same time the government partially floated the Syrian pound, to enable Syria to attract remittances from Syrian expatriates which would otherwise have entered the Lebanese or Jordanian banking systems. The parallel exchange rate enables the Syrian pound to float — within government controlled limits — against other currencies for certain purposes. These cover most private sector transactions and tourist currency exchanges as well as remittances.

One immediate effect of the move was to cause concern among Lebanese bankers, since they had previously financed a substantial amount of Syrian trade, and with the new system, this would now be financed by Syria's own banking system.

Recent moves to liberalize the banking system have generally been cautious. The Syrian-Jordanian Bank was established at the end of 1979 to act as a commercial bank and to finance joint Syrian-Jordanian projects. The government described its establishment — the first such joint venture to be undertaken by the authorities — as an experiment: "an open window through which the market economy can function." But it was made clear that the reasons for its establishment were largely political, to help finance trade with Jordan, and that further such ventures would also depend on the right political circumstances.

Meanwhile, the Commercial Bank continues to act as correspondent for many Western and Arab institutions. It has also established branches in Syria's free trade zones, in which businessmen can open accounts using foreign currency and then use them to secure orthodox letters of credit payable on sight.

In general, the government still views banking as an extension of state planning. Perhaps this is not so surprising, as current earnings from the banking sector are estimated in excess of \$1,000 million (\$255 million) — a figure that should rise considerably as expatriate remittances start to flow in the wake of April's reforms.



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## U.A.E. New Central Bank Moves to Support National Networks

By Michael Petric-Ritchie

**T**HE UNITED Arab Emirates is one of the most overbanked countries in the Gulf region. It has 53 banks with a total of 350 branches to serve a population of little more than 1 million.

Several of those banks have experienced liquidity shortages in the last four years and many of them remain alarmingly overextended, with credit-to-deposit ratios averaging 110 percent. This is the apparent result of years of ineffective control at the national level.

That situation is finally changing. At the beginning of this year the long-awaited Central Bank was established, replacing the less powerful Currency Board. The bank has lost little time in flexing its muscle.

In July, it ordered nine foreign banks to close a total of 89 branches by 1984, and ruled that no foreign bank will be allowed more than eight branches. One of the banks affected was the British Bank of the Middle East, which had 30 branches.

The Central Bank had made it clear that it disapproved of the discrepancy between the number of foreign banks with branches in the

Emirates and the small number of national banks with overseas branches. In a gesture of support for national banks, it relaxed a 1977 ban on the opening of new branches and allowed some local banks to expand their networks.

It is also encouraging recapitalization or mergers of banks to try to reduce the number of small national banks, many of which were established in the early 1970s. It

*The agency has lost little time in flexing its muscle.*

has fixed a minimum capital level of 40 million dirhams and requires that 10 percent of net profits be paid into a special reserve until it reaches 50 percent of a bank's capital.

The Central Bank has taken a similar line with the numerous investment companies. Beginning next year, investment companies will have to have a minimum capital of 50 million dirhams and be at least 70-percent-owned by U.A.E.

nationals. Formerly, the Emirates had been the target of many Gulf businessmen who were prevented by law from setting up investment companies in their own countries. The bank has blamed the lack of genuine investment institutions as a major cause of the rudimentary state of the UAE's capital and money markets.

### Reserve Requirement

In a move aimed at dealing with the squeeze on liquidity — caused by the flow of funds to foreign institutions paying higher interest rates than the fixed, artificially low U.A.E. rates — the bank has imposed a 15-percent reserve requirement on U.A.E. banks' dirham lending overseas. The regulation has increased the cost of dirham funds to Bahrain, the main offshore market, by about 2.5 percent, and has reduced the outflow.

In the domestic market, the Central Bank has favored a more even distribution of lending. Its greatly increased powers enable it to scrutinize more closely the domestic banks' credit ratios and ensure that they follow the December, 1980, law that forbids banks to lend more than 20 percent of their deposits for property devel-

opment. Overriding to the construction sector resulted in a crisis in 1977 when it became evident that too many buildings were being built, and that borrowers would have difficulty in finding the rent revenue to repay the loans.

One of the greatest problems facing the Central Bank is how to ally the widespread concern in the banking community at attempts by a local borrower to avoid interest payments on the ground that they contravene the Islamic ban on usury. A member of the Dubai ruling family who borrowed \$16 million to finance construction of the gold souk (market) in Dubai is said to have found subsequently that the returns on his investment were inadequate to meet the interest payments.

The lenders, a six-bank syndicate led by National Bank of Abu Dhabi, received a favorable judgment in the British courts but are waiting to see if proceedings will be initiated in the U.A.E. The Central Bank has kept a low profile in the dispute, except to reassure bankers that such cases would be heard in the civil and not the religious courts.

## Banque de la Méditerranée-France, sa.

## Balance Sheet 1980

Assets	1980	1979
CASH AND DUE FROM BANKS	408,588	248,878
TIME DEPOSITS WITH BANKS	327,488	318,276
SECURITIES	7,438	3,483
LOANS TO CUSTOMERS	808,136	887,957
CUSTOMERS' COLLECTION ITEMS	7,877	3,287
PREPAID AND OTHER ASSETS	15,088	13,860
INVESTMENTS	140	6,504
BANK FIXTURES AND EQUIPMENT	2,158	8,227
<b>Total Assets</b>	<b>1,578,857</b>	<b>1,197,580</b>

Liabilities	1980	1979
DEPOSITS:		
Demand	264,840	387,898
Time	1,200,328	748,983
	<b>1,465,168</b>	<b>1,136,881</b>
CUSTOMERS' COLLECTION ITEMS	7,881	3,589
ACCRUALS AND OTHER LIABILITIES	38,084	27,574
CAPITAL ACCOUNTS:		
per accompanying statements	88,837	88,038
<b>Total Liabilities</b>	<b>1,578,857</b>	<b>1,197,580</b>

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Telex 871 330 BAMEF  
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## Comptoir d'Alsace et de Lorraine

## Balance Sheet 1980

Assets	1980	1979
CASH AND DUE FROM BANKS	133,871	87,834
TIME DEPOSITS WITH BANKS	88,048	40,188
SECURITIES	7,158	-
LOANS TO CUSTOMERS	244,228	188,011
CUSTOMERS' COLLECTION ITEMS	3,886	16,828
PREPAID AND OTHER ASSETS	8,372	8,358
INVESTMENTS	21,410	27,994
BANK FIXTURES AND EQUIPMENT	4,906	4,830
<b>Total Assets</b>	<b>492,985</b>	<b>341,235</b>

Liabilities	1980	1979
DEPOSITS:		
Demand	18,088	38,088
Time	408,808	227,884
	<b>426,896</b>	<b>265,972</b>
CUSTOMERS' COLLECTION ITEMS	3,886	12,772
ACCRUALS AND OTHER LIABILITIES	10,034	12,828
CAPITAL ACCOUNTS:		
per accompanying statements	83,289	51,689
<b>Total Liabilities</b>	<b>492,985</b>	<b>341,235</b>

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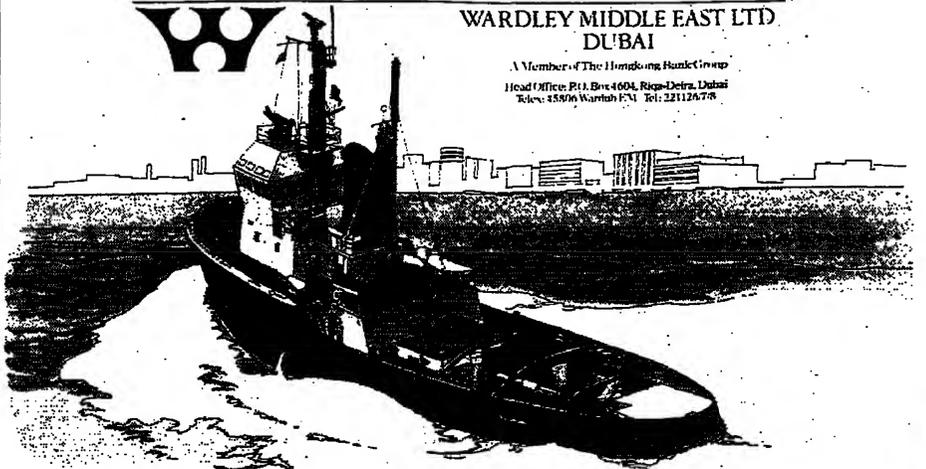
Wardley are experts in preparing total financial packages for development projects in the Middle East. These usually involve short or medium term loans, in the currency of your choice. The Bank's contribution often includes feasibility studies, structuring the best finance and security, and locating appropriate sources of funds. We also handle export finance, arrange leasing facilities, provide international issues and supply bank guarantees and tender and performance bonds.

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## in the ARAB WORLD

## TUNISIA

Favorable Standing  
In World Markets

By Michael Frost

OFFICIALS of Banque Centrale de Tunisie (BCT) expect to get favorable margins from the international money market to finance the forthcoming 1982-86 development plan. Commercial borrowing during the plan will rise sharply, they say, as the country's steady development increasingly restricts its eligibility for aid and concessionary lines of credit.

State borrowing on the commercial market totaled only \$100 million in 1977 and \$150 million in 1978. And the increasing value of limited—but prized—low-sulfur crude-oil reserves, together with substantial invisible earnings from tourism and remittances, enabled Tunisia to stay away from the commercial markets altogether in 1979 and 1980.

Invisible earnings of TD 335 million in 1979 and an estimated TD 353 million in 1980, almost covered the trade deficit, while earnings from sales of energy products—which account for about 50 percent of all exports—rose to TD 472.7 million in 1980 from TD 325 million in 1979. The consequent lack of borrowing ended the debt ratio to be brought down slightly from 11.5 percent in 1978 to 10.4 percent in 1979 and 10.5 percent in 1980. The ratio is expected to pick up again to about 12 percent by the end of 1981, and to rise further as borrowing increases.

## Debt Profile

The healthy debt profile, along with an increasingly liberal political climate, are reflected in Tunisia's favorable standing in the eyes of Western commercial bankers. At the beginning of 1981 Compagnie Financière Immobilière and Tomisique (Cofit) was able to raise \$25 million for seven years at one-half of 1 percent above Libor—a very low spread for a developing country. Lead managers were Frab Bank International and Banque Arabe and Internationale d'Investissement.

Much of the new investment for the 1982-86 plan will be financed by the joint banks in the process of being formed with Kuwait, Saudi Arabia and Algeria, and with France and Arab interests, including Qatar. A further development bank is to be formed by merging Banque de Développement Economique de Tunisie (BDET), Cofit and Société d'Investissement Arabe de Tunisie. Like the other joint banks, and in contrast to the Tunisian commercial banks, it will

be healthily capitalized at TD 100 million. BDET officials say Oman, Qatar and the U.A.E. have expressed interest in participating.

The undercapitalization of the commercial banks, which has made it difficult for them to do business in the interbank market, is just one of the problems that Premier Mohamed M'zali and Planning and Finance Minister Mansour Moalla are expected to tackle if they retain their posts after the legislative elections to be held in November.

Tight controls imposed by BCT on the 12 Tunisian-controlled commercial banks include a total ban on foreign exchange dealing. Overseas correspondents can be chosen only from among those banks with which BCT does regular business. Such measures severely limit the banks' profitability.

Mr. M'zali, a proven liberal, and Mr. Moalla, a respected banker with experience at BCT and Banque Internationale Arabe de Tunisie—formerly a branch of the British Bank of the Middle East—are known to be in favor of considerable liberalization of these regulations.

Western bankers say they are likely to allow commercial banks to handle at least some of their own foreign exchange dealing and to retain some of the foreign exchange earnings that they now surrender to BCT against reimbursement in local currency. There may also be some relaxation of sectoral regulations to give banks a freer hand in deciding who they lend to.

Tunisia's offshore banking sector, too, has suffered from unusually tight government controls. Four offshore banking units (OBUs)—Citibank Bank of America, National Bank of Abu Dhabi and the Paris-based Union Tunisienne de Banques—have been set up under the 1976 offshore banking law, primarily to service the offshore manufacturing sector established in 1974.

Opportunities for the OBUs have been limited by the tight margins available to Tunisian borrowers on the Eurodollar market, and by unexpectedly high revenues from oil and national savings. Savings financed 80 percent of investment in the 1977-81 fifth plan, 15 percent more than initially forecast.

One of Tunisia's main attractions as an offshore center has been the easy access it affords to Libya, but this may not be enough to offset the lack of business in Tunisia. While conceding that at least one of the OBUs—Bank of America

## LIBYA Resisting Pressure to Cut Oil Prices

IN TYPICALLY resolute fashion, Libya is determined to reject pressure for a lowering of its oil price, despite the threat that this could leave it with a serious cash-flow problem.

The stakes are high. As an OPEC hard-liner, Libya is loath to give way on the issue. But it also needs the funds to fulfill its \$62.5-billion development plan for 1981-85.

Demand is low for \$40-a-barrel oil—exports have dropped to less than half the early 1981 levels and revenues for the year are unlikely to exceed \$15 billion. This compares with 1980 oil earnings of more than \$20 billion.

Despite reports that Libya has been pressing foreign contractors to accept oil instead of cash as partial payment for contracts, Libyan financiers are confident that the country can ease itself out of a cash shortage. It would have little difficulty in raising money in either the international or domestic markets and has substantial reserves. Its foreign reserves alone are estimated to exceed \$14 billion.

## High Liquidity

Libya's five commercial banks have an extraordinarily high liquidity, with an average deposits-to-advances ratio of about 50 percent. Information on the banks' performance is hard to come by because they are audited by an overworked and understaffed state audit department. According to Libyan bank sources, however, the five banks are flourishing and one made profits of \$67 million in 1980.

The biggest domestic bank, National Commercial Bank, recently gave its most recent figures as those for end-1979. Then, the bank's total assets/liabilities were given as 624 million dinars. Deposits with the bank totaled 421 million dinars. Capitalized at 2.5 million dinars, the bank operates from Tripoli and has 25 branches around the country. It has shares in European Arab Holding of Luxembourg and the Brussels-based European Arab Bank.

Two other banks—Umma Bank and Wahda Bank—have international links. Wahda Bank, headquartered in Benghazi, notably has a shareholding in Banque Arabe Internationale d'Investissement in Paris and Compagnie Arabe et Internationale d'Investissement in Luxembourg.

Correspondent banking relations exist with several countries. These were added to this spring when the Central Bank of Libya and the domestic banks concluded correspondent arrangements with the Korea Exchange Bank. The arrangements are to facilitate export-import settlements with South Korea, whose trade with Libya has grown considerably in recent years.

All Libyan banks were nationalized soon after

the Sept. 1, 1969, revolution that brought Col. Moamer Qadhafi to power. Since then, the Libyan leadership has shown a remarkably pragmatic approach to banking. While revolutionary policies have frequently thrown the rest of the country's economy into chaos, banking and oil, the mainstays of prosperity, have emerged relatively unscathed.

In the state-controlled economy, most bank activities revolve around the numerous state corporations, extending temporary overdrafts and opening letters of credit. Interest rates are fixed at 7 percent for secured loans and 7.5 percent for unsecured loans. Deposits earn a generous 10-percent interest.

The 11 foreign banks operating in Libya before 1969 withdrew following the nationalization of local banks. Most of the foreign banks were British; of these, Barclays Bank was the largest.

Yugoslavia's Jugobanka is the only foreign bank allowed to open branches in Libya, underlining the strong commercial and political links between the two countries. After a July visit this year to Belgrade by senior Libyan aide Abdel Salam Jalloud, Libya agreed to provide Yugoslavia with a seven-year, \$150-million loan to help finance the Eastern European state's expected 1981 balance-of-payments deficit. Libya's overseas banking arm was co-lead manager this year of a \$200-million loan to Banque Nationale de Yougoslavie.

The possibility for the five domestic banks to invest in further joint ventures overseas ended when the Libyan Arab Foreign Bank (LAFB) was set up in 1972. LAFB operates exclusively in the international capital markets and has earned a reputation as one of the leading Arab banks. Capitalized at 25 million dinars, LAFB recorded a 12-percent increase in business in 1979—up to \$2.583 billion—and a 48-percent rise in profits, from \$31.7 million in 1978 to \$47 million.

LAFB participated in 20 international syndications in 1980, including acting as lead manager for a \$1.5-billion loan to Italy's state-owned Ente Nazionale Idrocarburi (ENI). Italy is a major trading partner, and LAFB's interests there include a 9.09-percent holding of Fiat ordinary shares and a similar percentage of its preferred shares. In 1979, LAFB was lead manager for a \$1-billion syndication for Fiat.

Earlier this year, Libya was reported to be seeking to increase its equity in Italian industry with proposals to take substantial shares in Montedison, a giant chemical group, and a 400-million takeover of Mario Maraldi, a troubled steel and sugar producer. Libya's direct investments worldwide total about \$2 billion.

—MICHAEL PETRIE-RITCHIE

—has been "examining its future." BCT officials say they are confident that future credit needs will, at worst, sustain the offshore sector at its present size. International bankers in London, however, are pessimistic about the sector's future and say that at least two of the OBUs are "winding down their operations."

Prospects for the OBUs should become clearer as a result of legislation that was to have been introduced earlier in 1981, but is now not likely to be passed before the November elections. The government is considering allowing offshore export manufacturers to borrow from locally based banks—particularly the joint-investment

banks—in addition to the OBUs and BDET. This could well sound the death knell for the OBUs, unless they are offered some compensation in the form of greater freedom of activity.

## EGYPT Trend Toward Increasing Regulation

THE TREND toward greater regulation of banking and financial activity is causing increased concern in Egypt's foreign banking community.

The background to the increased state interference is the campaign led by the deputy premier for financial and economic affairs, Ali Abdel-Razzaq Abdel-Meguid, to protect the Egyptian pound and stimulate long-term investment in the country's ambitious development plans.

Egypt has the longest established banking tradition in the Middle East, with six banks ranking in the top 50 Arab banks in terms of deposits. The traditional financial infrastructure, which had been nationalized during the Nasser years, was transformed by the 1974 open-door policy liberalizing foreign investment. Links with sources of outside hard currency financing were desperately needed at that time.

In the last few years, with rising foreign-currency earnings from oil sales, Suez Canal tolls, worker remittances and tourism, the hard-currency shortage has eased considerably. A continuing problem is domestic liquidity and control of inflation in an economy already artificially structured with government subsidies on a wide range of staple commodities. The difficulties are compounded by a complex three-tier exchange rate system that tolerates almost a separate monetary system known as the "own exchange" market. This operates outside the main banking system and effectively provides a black market offering a 10-percent premium for dollars against local currency compared with the parallel market exchange rate.

## Essential Policy

It is an essential part of Mr. Abdel-Meguid's policy to consolidate the Egyptian pound as a unit of value and exchange. The pound was devalued by 20 percent against the dollar on Aug. 1 for all nonofficial transactions, in an attempt to regain some of the foreign exchange that had been flooding into the own exchange market to the detriment of the official banking system since the upsurge of the dollar earlier this year.

A number of factors other than the dollar's strength have contributed to the weakness of the pound. High Eurodollar interest rates caused the government to increase

interest rates on local savings accounts to 10 percent from 8.5 percent in July. This is still well below the 17 percent to 18 percent offered on dollar deposits. The official system has also been affected by large amounts of local bank notes being smuggled out of the country to Egyptians working abroad who have used this to buy hard currency. Rumors of higher taxes on luxury goods, which must be purchased with hard currency, have in turn increased demand for foreign currency and pressure on the domestic market.

The Central Bank of Egypt says that the old rate of \$1 to 0.70 Egyptian pounds is to remain for state imports of strategic and basic goods and for the costing of capital projects in the current financial year. Revenues from oil, Suez Canal tolls, cotton and rice sales will also be exchanged at the old rate. New buying and selling rates of \$1 at 0.83 and 0.84 Egyptian pounds, respectively, affect tourists, Egyptian workers remitting earnings at home and certain categories of exports.

Two committees are being set up. One, consisting of local banks and headed by the Central Bank, is charged with keeping the new exchange rate under review. Western observers say that it could represent the initial moves toward a "crawling peg" exchange rate and in turn lead to the Egyptian pound being pegged to a basket of currencies. The Economic and Financial Affairs Ministry is heading the second committee, which will regulate imports.

## Foreign Banks

The foreign banks in Egypt—there are 54 branches and representative offices—are concerned about the implications of the new measures. Before the devaluation, Mr. Abdel-Meguid declared that the banks' licenses would be revoked if they continued to buy foreign currency through black market brokers.

It is also no longer possible for foreign banks to issue letters of credit on first- and second-category imports. Banks were instructed last year to place various deposits with the Central Bank when opening letters of credit. Category one covers basic food items and requires a 25-percent deposit. The second category, covering intermediate and capital goods, spare parts and raw materials calls for 40

percent, while the third category, including luxury goods, needs a 100-percent deposit.

The original requirement was that deposits be made in hard currency. This still applies to category-three goods, but for categories one and two they must be made in local currency provided by the banks issuing the letters of credit. This keeps out foreign banks as they are not allowed to deal in Egyptian pounds.

Letters-of-credit business has been a rich source of income for foreign banks even though their Egyptian licenses describe them as investment institutions. High profits with relatively little involvement in development projects by the banks has caused embarrassment. Misr International (Mi-bank), for example, one of the three largest joint-venture banks, reports that income almost doubled in the year to Dec. 31, 1980.

The foreign banks point out, not without justification, that it takes time to establish a knowledge of a country—its investment potential and the credit ratings of firms—and of individuals the banks may do business with.

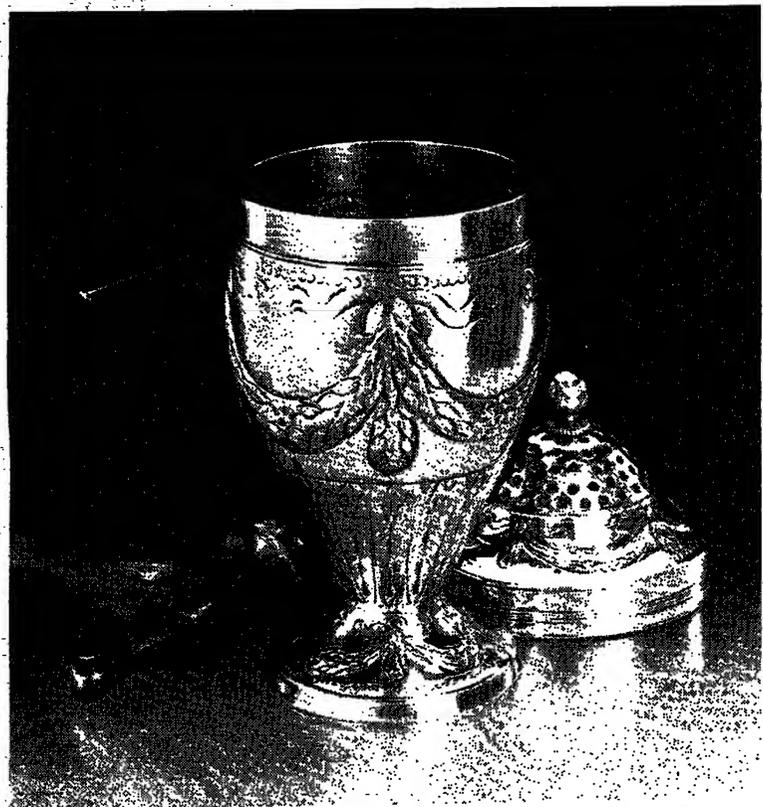
The foreign presence has also brought a more competitive edge in the financial market. The atmosphere has on occasions become abrasive. The chairman of Chase National Bank (the first foreign bank in Egypt after 1974), Ali Dabbous, was quoted earlier this year as saying that a gentlemen's agreement between national banks to seek one another's clients seemed to have broken down.

A number of foreign banks are considering joint ventures with private individuals. One advantage is that such joint ventures could become more involved in domestic banking, particularly in the acceptance of expatriate remittances, which in 1981 are estimated to total \$3 billion. The drawback is that present regulations only allow this type of joint venture if the bank closes its branch office within two years.

So far, the requirement announced in 1980 that foreign banks deposit 15 percent of their foreign currency holdings with the Central Bank has not been enforced. But the measure has not been rescinded, and each bank is required to make regular statements on its hard-currency holdings.

—ROBERT BAILEY

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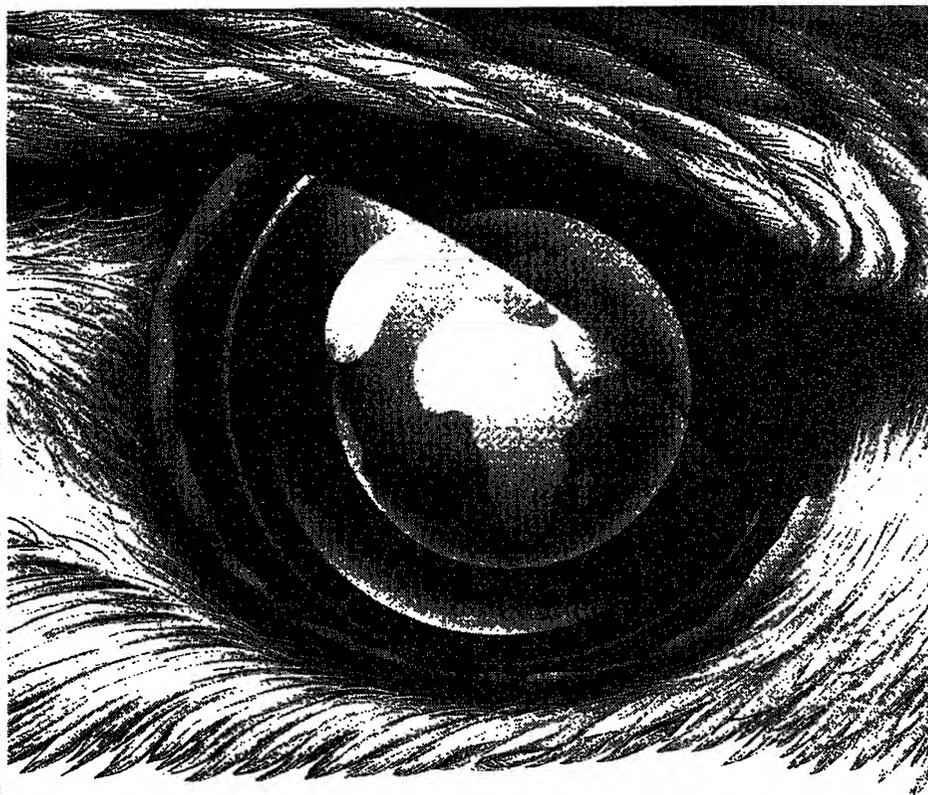
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## BAHRAIN Signs of Steady Growth Ahead

BANKS WITH full commercial licenses can look forward to a period of steady growth and healthy profits in Bahrain, at least for the first half of the 1980s.

The economy is set to expand at a healthy pace. Real growth is expected to be about 7 percent a year in the first development program (1982-85), which begins on Jan. 1 next year. This should ensure any slack in the labor market will be absorbed, real income will rise and tastes become more sophisticated. All these trends suggest the market for banking services will grow as well.

Local banks can expect a continuing subsidy from the banking authorities, which want to insulate the island's economy from high international interest rates. This subsidy, which helps keep lending rates a half-a-dozen percentage points below free market levels, can be expected to decline but not disappear in coming years.

And the government is continuing to protect locally registered banks from fresh competition. No more new entrants are to be allowed for the foreseeable future, and offshore banks are prevented

from doing business with the island.

Without these guarantees to local banking's future, prospects would be bleak. The island's population is about 360,000 — one-third of whom are expatriates, mainly from the Indian subcontinent. The market is also crowded. A total of 19 banks have full commercial banking licenses issued from the Bahrain Monetary Agency (BMA). In addition, there are two specialist banks — the state-owned Housing Bank, which finances home building at concessional rates, and the Bahrain Islamic Bank founded in 1979 by a mixture of private and public sector Gulf investors.

Of the commercial banks, only two can be described as national in the sense that they are fully owned by Bahrainis. The largest is the National Bank of Bahrain (NBB) which was founded in 1977, with a 49-percent government shareholding. The bank has progressed steadily, if conservatively, in the past decade. Total assets rose 40.9 percent in 1980 to BD 297 million (\$700 million) in 1980, while profits climbed 30.8 percent to BD 4.8 million (\$14 million). In June, the bank opened an offshore banking

unit (OBU), and immediately managed the first sovereign credit to be finalized on the island. This is the first stage in NBB's move into international banking, says general manager and chief executive Nooruddin Norruddin.

### Al-Ahli

The second completely Bahraini operation, the Al-Ahli Commercial Bank, is usually placed third in local banking behind the Bank of Bahrain and Kuwait (BBK). Founded in 1971 by a mixture of Bahraini and Kuwaiti investors, the BBK is considered to be the most innovative local bank. Its willingness to move fast was demonstrated in 1980 when it opened an OBU. Like the NBB, the bank's profits are very satisfactory, rising to BD 2.6 million (\$6.9 million) at the end of June. Assets totaled BD 490.3 million (\$1.3 billion), a rise of 23 percent on the June, 1980, figure.

Only one other bank has a significant local shareholding. This is the Continental Bank, which was founded in 1976 by local investors in a 50-50 partnership with the Continental Illinois National Bank and Trust Company of Chicago.

## Capital Movement

(Continued from Page 75)

tion that in the not-too-distant future the IMF will turn to other OPEC states for financial support. Kuwait and the United Arab Emirates would be obvious candidates with their strong external positions. It all adds up to a closer relationship between the dollar-surplus Gulf states and the IMF, and this affects the size and scope of the IMF's lending activities in the developing countries.

India, for example, is likely to make use of balance of payments support of up to \$4 billion over three years, and billion-dollar-plus facilities have been offered to Yugoslavia, Pakistan and Zaire this year.

What remains to be seen is the extent to which Saudi Arabia will use its leverage within the IMF for political ends. So far the Palestine Liberation Organization has been unable to gain observer status at the IMF-World Bank annual meetings, but it will surely not be long before the issue is raised again. This time, with Saudi pressure from within and strong Third World and Arab support, it could be difficult to resist.

It is also possible that the closer Arab-IMF ties will be paralleled by closer cooperation with the World Bank, which has been critical of Arab countries' aid efforts. In particular, it dislikes the concentration of official development assistance from OPEC countries on a few favored recipients, notably the "confrontation states" bordering Israel. The bank would like to see more funds channeled through multilateral institutions — such as itself — rather than given on a bilateral basis.

Much attention has been given to the prospect of OPEC eventually moving away from the dollar as the currency in which oil prices are fixed. Fluctuations in the value of the dollar have in the past caused sudden rises and falls in the purchasing power of oil revenues, and can distort the oil price structure. One of the frequently suggested solutions — usually raised by OPEC members in periods of falling dollar values — is that the price of oil be denominated in terms of a basket of international currencies such as the SDR. This is not a change that will be made overnight, but the SDR's new image, combined with Saudi Arabia's clear commitment to the role of the IMF, make such a move more likely.

## Bahrain's Growing Third World Ties

ANOTHER first in Bahrain offshore banking was created in June, 1981, with the signing in Manila of \$50-million credit for the Central Bank of the Philippines.

Lead managers for the only sovereign credit to be finalized so far on the island were the National Bank of Bahrain's offshore banking unit (OBU) — which was opened earlier this year — and Manila-based Allied Banking Corporation's OBU.

This deal should be truly pleasing to the Bahrain Monetary Agency (BMA). It shows local banks' willingness to expand into international capital markets. It indicates the growing status of Bahrain's offshore banks among less developed country (LDC) borrowers — Philippines Central Bank governor Jaime C. Laya traveled to Bahrain to sign the deal in person. Thirdly, it shows banks from countries not so far represented in Bahrain are prepared to open active offices on the island.

Allied Banking Corporation's OBU, which started operating in August, 1980, is little more than three years older than the parent bank itself. Founded in 1977, Allied had by 1979 become the Philippines' number one privately-owned bank. The move into international banking is comparatively recent. Allied has a representative office in London, another in Sydney and plans to open a full banking operation in San Francisco. The Bahrain OBU is the bank's first full overseas branch, putting a lot of responsibility on the shoulders of An De Liu, the OBU's 32-year-old manager.

Mr. De Liu's experience had been exclusively of domestic banking in the Philippines before he got

the Bahrain posting at the end of 1980. He says business has been developing gradually. By the beginning of April, assets were about \$80 million and rising. Most was placed on interbank markets, while the remainder — about 20 percent of the total — was in syndicated loans. "Interbank is the main market," says Mr. De Liu. "Nothing is lent more than six months, which makes earnings lower than they might have been with longer-term advances." "We don't expect to make a huge profit out of our first year of operations," he adds. Allied is gearing itself up more to serving sovereign risk clients and Filipino contractors working in the area. Mr. De Liu dwells on the link between the Philippines and the Middle East. "We have a Filipino population in this area of about 100,000 people, and close to 30 companies," he says. "A lot of Filipino companies are also going back to Iraq." Allied is particularly interested in supporting construction companies, like Landoll and CDCP, which are working in the area.

### Additional Impetus

The Philippines also gets 60-70% of its oil requirements from Gulf states, which gives additional impetus to Allied's attempts to win deposits. The priority to start with is sovereign risk, says Mr. De Liu. "Then we would look at the private sector in the local market, short term guarantees and that sort of thing."

Mr. De Liu is optimistic about Allied's prospects. "We are a very conservative bank when it comes to it," he says. "I think they [management] will be happy at the end of the year."

—EDMUND O'SULLIVAN

ary aggregates at satisfactory levels despite the recent big increases in government spending. Money and quasi-money aggregates expanded at a rate of 15-20 percent in 1980 compared with just 2 percent in 1979, when the island was still suffering from the effects of reduced public expenditure. According to the BMA, the wider definition of money supply rose 27.2 percent, mainly reflecting a big expansion in interest-bearing deposits at the expense of demand deposits.

Bank credit expansion was dramatic in 1980. Loans to residents rose to BD 742 million (\$1.9 billion) in June, 1981, compared with BD 417 million (\$1.1 billion) 12 months earlier. Construction continued to be the most important consumer of bank credit, accounting for 35.8 percent in 1980, followed by trade (26 percent) and manufacturing (12.7 percent).

Nevertheless, there are some major challenges emerging from the growing integration of Gulf economies into the international monetary system. Because Bahrain has no foreign exchange or capital controls, funds are free to move across the exchanges to find profitable arbitrage possibilities. These have been substantial recently. The BMA fixes a ceiling on dinar de-

posit rates while dollar rates have been close to 20 percent. The result has been a liquidity squeeze, local bankers say.

To combat this trend, the BMA increased deposit rate ceilings twice in 1980, and revalued the dinar against the dollar to reflect exchange rate movements. In addition, local banks were allowed to issue large denomination dinar certificates of deposit at market interest rates. These have proved to be an attractive, if marginal, short-term home for corporate funds that might have found their way into dollar deposits, local bankers say.

### Swap Facilities

The most important weapon in the BMA's armoury is its swap facilities. This entails buying dollars spot for dinars, and matching this with an identical forward sale of dollars for dinars with the same bank. The deal is arranged at concessional interest rates, currently 12 percent. The BMA hopes the local banks will charge a reasonable rate for these low cost dinar funds, but the arrangement still entails a substantial subsidy from the government to the banks.

The result of this and other factors is that banking is proving to be one of the most successful areas

of private sector activity on the island. It is also genuinely important to the local economy, says BBK's Eshaq. "The domestic banks are important because they play a big role in all sectors of the economy," he says. "The profits of the commercial banks come from participating in all sectors of the economy." Examples are the revolving rollover credit facilities for the Aluminium Bahrain (Alba) project.

Further major challenges are also on the horizon. The Bahrain-registered Gulf Petrochemical Industries Company (GPIC) plans to raise up to \$250 million to finance its ammonia and methanol project on the island. GPIC's chairman Tawfeeq Almoayed says the local banking community may be asked to participate in a syndication that will be co-ordinated by the BMA. The deal could be similar to the \$300 million loan for the State of Bahrain which was used to pay for the acquisition of 60 percent of the Bahrain Petroleum Company (Bapco) refinery last year. Other new industrial projects on the island — such as the pan-Gulf hydrocracker — may choose to tap local markets in the same way, providing a further reason why Bahrain commercial banking has a bright future.

—EDMUND O'SULLIVAN

**YAMAICHI INVESTMENT BRIEF**

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(II) Key Industries (15-20% of GNP): Steel, Automotive, Electric machinery, Chemical, etc.

(III) Other Industries: Agriculture and Fishery, Construction, Electric Power and Gas, Wholesale and Retail, Finance and Insurance, Services, etc.

Source: Agency of Industrial Science and Technology, MITI

- Key areas of growth will be Electronics (office automation equipment, computer mainframes, microcomputers, semiconductors), Life Sciences (genetic engineering), New Basic Materials (transformation of metals, organic materials, ceramics), and New Energy (nuclear, solar, geothermal, etc.).
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# in the ARAB WORLD

## IRAQ Rafidain Bank Becomes the Largest in the Islamic Community, Moves Onto World Scene

By Shakhb Otaqui

A NEW name may soon appear on the "tombstones" that are regularly printed in the financial press, listing banks participating in syndicated loans and bond issues. Rafidain Bank, the sole commercial bank in Iraq, is preparing for direct involvement in world financial markets. Until now, it had restricted itself to the local market and to processing Iraq's foreign trade transactions.

Rafidain Bank has raised its capital to 50 million Iraqi dinars (\$167 million) from its previous 30 million dinars; the government is the only shareholder. This was also done to support the bank's soaring balance sheet total, which, including contra accounts, exceeded \$20 billion in 1979. This made Rafidain the Arab world's largest bank, k entered The Banker magazine's list of the world's 500 largest banks for the first time that year, in 153th place. The bank now claims to have moved up to 122d place by end-1980, although its results for last year have not yet been published.

Rafidain has already made a tentative entry into world financial markets through its holdings in a number of Arab consortium banks, including the Paris-based Union de Banques Arabes & Francaises (6.45 percent), the Cairo-

based Arab African International Bank (10 percent) and the latter's subsidiary Al-Bahrain Arab African Bank (1.283 percent). Rafidain recently announced plans to open branches in San'a, Amman and Tunis. These will supplement its existing branches in London and seven other Arab countries, bringing the branch network to 216 at home and abroad.

In recent years, deposits have been the bank's main source of funds, accounting for almost 90 percent of assets (excluding contra accounts). Government and public sector entities account for about half the total. But the bank is also actively seeking deposits from private individuals, more than 65 percent of which are held in the form of time and savings accounts. To encourage them further, the bank offers a free lottery and life insurance of 2,000 dinars for the holders of such accounts.

### Liquidity Ratios High

Rafidain maintains very high liquidity ratios, with almost half of assets held in the form of cash at banks, on call or short notice. Investments are very limited, mainly in government securities, while foreign investments are minute.

Rafidain's real forte is in processing letters of credit, guarantees and performance bonds. Letters of guarantee totaled 1.923 billion di-

namers at the end of 1979, while documentary credits totaled another 1.429 billion. This accounts for the anomaly of the bank's extraordinarily large contra accounts.

Until the outbreak of the Gulf war, Iraq had an enviable reputation for promptness in paying its bills. Indeed, some exporters were willing to ship goods without even the protection of an irrevocable letter of credit. This has become rare recently as the war has imposed strains on the country's liquidity.

Reserves were estimated at

### Almost half of its assets are held in the form of cash...

about \$35 billion in 1980 and are now thought to have dropped to \$15 billion to \$20 billion. In an effort to maintain development despite the war, spending has been at a frenetic pace. The \$15 billion worth of contracts awarded in the first half of this year already exceeds the \$12.5 billion for the whole of 1980. Planning Minister Taha Ibrahim recently estimated total spending at not less than \$133 billion for development during the 1981-1985 plan. Spending on imports, particularly of con-

sumer goods, has boomed, with Baghdad now better supplied than in prewar days.

Oil production is thought to stand at 1 million barrels a day, about one-third of the prewar level. To avoid too drastic a run-down of financial reserves, Iraq has arranged about \$12 billion in interest-free loans from other Gulf oil producers, of which \$5 billion is thought to be firm. Kuwait alone has provided an interest-free 10-year loan of \$2 billion.

To preserve the appearance of Iraq's financial strength, Finance Minister Tamer Razzouqi said that Kuwaiti and other loans were a spontaneous expression of solidarity from Iraq's Arab neighbors. This was somewhat contradicted by the Kuwaiti decree approving the loan, published in the official gazette over the signatures of Mr. Razzouqi and his Kuwaiti counterpart, which said that the loan was in response to a request from the Iraqi government.

Nevertheless, the indications are that — with a little help from its friends — Iraq is in a reasonably strong position to pay for its ambitious development program. There have been signs recently of delays by Rafidain Bank in paying on letters of credit, but these are likely to be as much due to inefficiency in handling the enormously increased paperwork involved as to

any financial difficulty. The situation may improve with the installation next January of a computer ordered from France's CII-Hoeywell Bull.

Within Iraq, Rafidain's only competition comes from three state-owned specialized banks, of which the largest is the Real Estate Bank. That bank has a capital of 500 million dinars, and granted loans to individuals totaling 1.173 billion dinars in the 12 years to 1980. Another 334 million dinars was lent to 91,000 people in the first six months of this year. Interest on such loans was abolished in May, 1980. The bank has become a significant outlet for excess liquidity in public sector institutions, which are increasingly tending to place their funds with it.

### Agricultural Funds

The Agricultural Cooperative Bank recently raised its capital to 150 million dinars, allowing it to lend 520 million dinars this year. The bank has worked closely with the Agriculture Ministry to widen its services for farm mechanization, poultry projects and the development of orchards. It has been particularly involved in providing low-interest loans to finance the purchase by farmers of tractors imported by the ministry.

The Industrial Bank, capitalized at 50 million dinars, is closely affil-

iated to the State Organization for Industrial Developments. In a country where most industrial investment is done by the public sector, it is largely limited to financing some minor projects carried out by the private sector. Its role may become more important if the government fulfills its promise to encourage private industrial enterprises in some carefully defined sectors.

This somewhat primitive banking system is closely supervised by the Central Bank of Iraq, which carries out the usual duties of a central bank. Until recently, there was little need for the bank to handle government borrowing — in mid-1980, advances to the public sector amounted to only 2.1 million dinars out of a balance sheet total that reached \$8.84 billion. Foreign exchange controls are strict, and private investment abroad is limited mainly to Arab countries.

Iraq's intrinsic wealth makes this unsophisticated system adequate for handling the country's financial transactions. While the war has substantially reduced oil revenues, the oil remains in the ground, appreciating in value; heavy industrial investment will eventually reduce the need for imports and may even start to generate significant non-oil export revenues.

## SUDAN Government Bid to Put Priority on Resolving National Economic Problems Expected Soon

By Robert Bailey

SUDAN, which has been on the brink of national bankruptcy for many years, is likely to make a fresh start to put its economy on a sound footing in the next few months.

The country's banking system has survived in spite of the trauma, more for the vast promise of its future development than for existing business. There are 29 commercial banks and financial institutions, including branches of the Arab African International Bank of Oman, the Banque de l'Union Europeenne, Chase Manhattan Bank and Citibank. There are considered to be more than reasonable profits to be made from short-term funding for private sector banks not overdue on letters of credit and who are also not participants in the debt rescheduling exercise.

A new commercial institution, the Sudan National Bank, capitalized at \$20 million, is to open in 1982. Two other Western banks

are thought to be looking into the possibility of opening branches in Khartoum.

The rescheduling involves debts of more than \$420 million plus interest of more than \$40 million owing to commercial banks abroad since the end of 1979, and of \$30 million accruing in the period to June 30, 1980. The protracted negotiations with the banks involved are expected to be completed and an agreement ready for signature by November.

### British Bank

Executives of the British merchant bank Morgan Grenfell have been advising the Central Bank of Sudan during the negotiations with a group of five banks representing the creditors. The banks are Chemical Bank and Citibank, both of the United States, Arab African International Bank, Deutsche Bank and the Union de Banques Arabes et Francaises.

The verification exercise has been extended, not least because

of the geographical spread of the creditors, who on each point discussed have to coordinate with their individual legal advisers.

The broad terms of the draft document being discussed with the commercial banks concern \$40 million of the \$170 million in current debt and interest to be paid within 60 days of an agreement being signed. The balance is to be paid in nine equal installments within three years of signature. The remaining debt principal is to be paid in 17 equal installments starting after three years, with final repayment seven years later. Interest is to be paid quarterly in arrears at 14-percent above the London interbank offered rate (Libor).

### Energy Costs

The rescheduling is part of a three-pronged strategy to assist Sudan, which has faced persistent balance-of-payments difficulties for 25 years. The government has the unenviable record of ineffec-

tive budgetary control and continually underestimated expenditure.

Like most developing countries with unexploited mineral resources, Sudan has also been hit hard by the rise in hydrocarbon prices. In the previous fiscal year imports of gasoline and other refined products cost \$440 million, almost equal to the total value of Sudanese exports. In November, 1979, the member countries of the Organization of Economic Cooperation and Development in the Club of Paris agreed to write off debts owed to their governments. The third substantive measure, when agreed to, will be the rescheduling of about \$450 million owed to foreign companies by Sudanese importers. Morgan Grenfell has made recommendations to the Bank of Sudan, and an announcement is expected soon.

Remedial action is being sought to end a long period of what has been little more than crisis management, and to concentrate on development. Creditors would

have been unlikely to discuss rescheduling with Sudan unless, as happened, policy guidelines suggested by the International Monetary Fund were accepted.

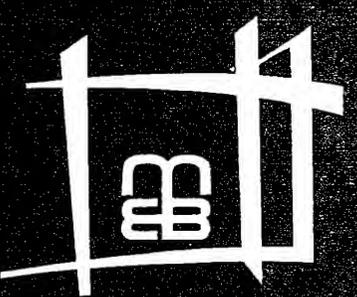
The IMF agreed to a 200-million-special-drawing-rights (\$227-million) facility in May, 1979, as part of a three-year economic and financial reform program due to have been carried out by November, 1982. The facility was increased to 427 million SDRs late in 1980. Sudan's discussions with the IMF this summer have been aimed at obtaining a further increase of 200 million SDRs, bringing the country to its 475-percent limit according to its IMF quota of 132 million SDRs (\$150 million).

One of the stipulations for previous IMF agreements has been stringent restrictions on creation of credit by the public sector as well as agricultural changes. The 1981-1982 budget envisages government revenues at 1.731 billion Sudanese pounds (\$2.163 billion), although bankers estimate that the

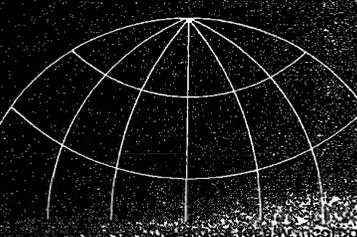
deficit will reach \$700 million. The least optimistic say that in the future Saudi Arabia and other Gulf states cannot be looked on as lenders of last resort. The drift toward overt support for Egyptian President Anwar Sadat's foreign policies, it is argued, will not have endeared Sudan to these states.

The long-term prognosis for Sudan's financial system is bound up with prospects for development projects. Some of these, like the Kenana Sugar Co.'s cane estate and sugar factory, opened at the end of April, and Chevron Oil Co.'s exploration program, the latter to cost \$70 million, are spectacular. Chevron's concession of 112,000 square miles, covers one of the largest remaining unexplored areas in the world.

With the completion of debt rescheduling, it will be up to the government to prove that it has the imagination and the commitment to exploit Sudan's much delayed opportunities.



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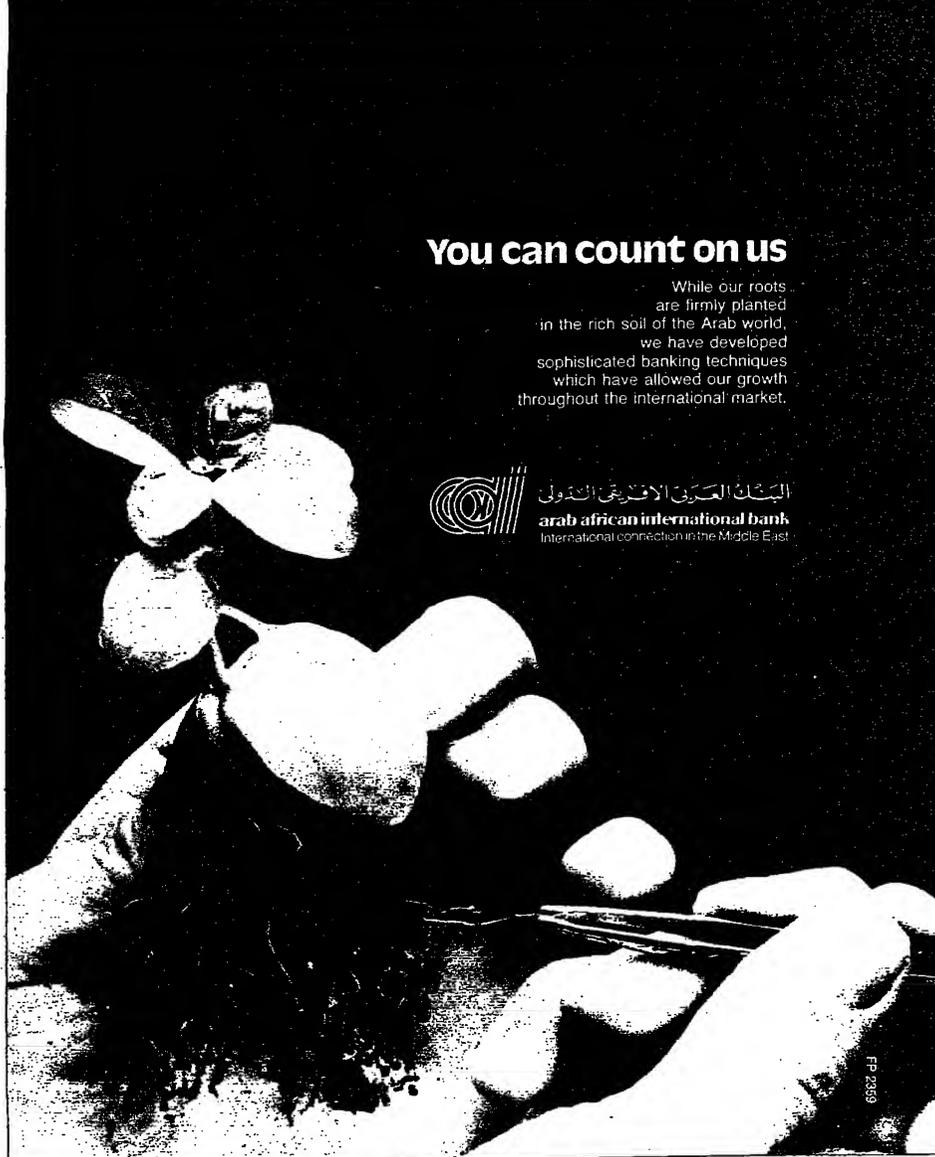
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French Are Leaving Boards of Companies in Region

(Continued from Page 7S) banks have been very special in the international banking world. Some have been more heavily involved in commercial banking, others in investment banking. They were a considerable force throughout the 1970s in financing French-Arab trade and helping Arab investment

in France, mainly big real estate deals in Paris such as the purchase of large parts of the Avenue des Champs-Élysées and the Avenue Montaigne. Heavy Arab investment in Paris has stopped for the time being. However, there is considerable trade in shares, oil and other com-

modities. The restructured consortium banks will continue along these lines with UBAF perhaps more in commercial banking, BAI in investment and Frab in commodity finance and foreign exchange. All are doing well, despite the recent changes. UBAF, which

made 38 million francs profit last year compared with 30 million in 1979, says results for this year should be up. Frab is running 20 percent up from last year, and BAI is also showing improvement.

Frab was the first of the consortium banks, but UBAF later became the biggest with a 40 percent Credit Lyonnais holding. UBAF was once virtually a branch of the Credit Lyonnais, but the situation has now been reversed, with the French maintaining a stake in the French part of UBAF.

Credit Lyonnais sold off to Arab interests its 30-percent remaining holding in UBIC, the Curaçao- and Netherlands-based holding company set up five years ago by Mohammed Abushadi, the former governor of the Egyptian Central Bank and UBAF chairman since its inception. Mr. Abushadi has long sought to put "more order" into the worldwide structure of his bank. UBAF top direction is now 100 percent Arab. It has local participation in subsidiaries in such cities as London, Frankfurt, Rome, New York and Hong Kong, and has branches in Seoul and Bahrain, with one planned in Singapore.

UBAF says the new arrangement has made the bank less complicated and will enable it to pursue a single strategy — one holding company owned by Arab interests and a series of affiliates.

As one French banking source commented: "They have grown up. They want to live their own lives and fly with their own wings."

UBAF is still the big name in Paris with prominent roles in organizing loans for Mexico, South Korea, Morocco, Cuba, Nigeria, Argentina and Brazil, but BAI has a reputation based partly on its skill in acquiring real estate in France on behalf of Arab investors.

BAI says it is not going to follow the Arabization example of UBAF and Frab. Yet it has sold its interest in Dean Witter Reynolds in the United States in order to open its own New York office. The same change is likely with the Hill Samuel link in London. There are 38 Arab and international shareholders, and one BAI officer remarked: "We are a happy combination of the old banking establishment of the free world and of the new petrol money."

Yet the Arab domination is strong. Abdel Latif Hamad has departed from the chairmanship to become finance minister of Kuwait, but he is to be replaced by Salim Hoss, former premier of Lebanon.

New Commodity Licensing System Hailed

By Edmund O'Sullivan

THE COMMODITY and precious metals licensing system introduced by the Bahrain Monetary Agency (BMA) in July this year has been warmly received by banks doing business in the region.

Early recipients of deal licences are Banque de l'Indochine et de Suez of France; Bahrain-based Gulf Ryadh and Gulf International Bank (GIB); Credit Suisse, Swiss Bank Corp. and Luxembourg's Kredietbank; and two investment banks — Trans-Arabian Investment Bank (TAIB), and BAI (Middle East). E.F. Hutton of New York has been granted a broking licence.

The system introduced by the BMA is considered to be strict by international standards, but suitable for Bahrain, which serves a region where recent movements in precious metals markets had produced some disillusion among investors about commodity markets in general.

The rules are clear: dealers can trade on their own account and for others, while brokers will not be allowed to deal as a principal or hold positions, spot or forward, in precious metals and commodities. Offshore companies will be allowed to trade with residents of Bahrain and nonresidents, provided deals are no less than 200 fine ounces of gold, or 5,000 fine ounces of silver.

A second category of dealers is recognized. These are "exempt traders" in commodities for manufacture or processing. They will be supervised by the Commerce and Agriculture Ministry. The BMA's supervision of licensed dealers and brokers will be tight. They are required to report monthly and submit fully audited annual accounts.

The rules are particularly strict for dealers that are not licensed banks. Paid-up capital must be BD 500,000 (\$1.3 million), and BD 250,000 (\$650,000) worth of guarantees given to the BMA. Margins for all traders are high. Clients have to pay BD 4,000 (\$10,000), or 10 percent — whichever is the greater — of unmatched gold futures contracts. For silver, the margin is BD 5,000 (\$13,000) — three times the maximum daily price movement permitted by the New York

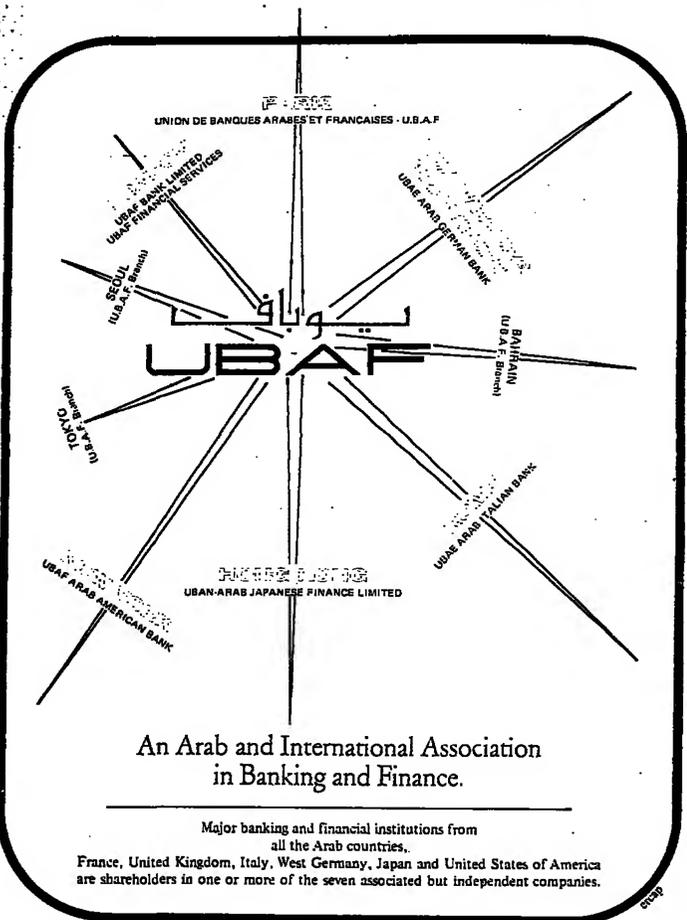
Commodity Exchange (Comex) for each unit traded is required for other commodities.

The strictness of the regulations, which is considered to be very much in line with the BMA's other banking rules, means that only reputable operators will consider paying the BD 6,000 per year (\$16,000) for a broking or dealing licence. It is a formula that has pleased OBU's already offering a commodity investment service on the island. They say they believe it will prevent the imprudent and unscrupulous from damaging the development of willingness among local savers to invest in commodities.

Some of the world's biggest operators in commodity markets are already present on the island. The two Swiss banks are active in gold, along with E.F. Hutton, Merrill Lynch International and Company, which has an investment banking licence, is attempting to develop interest in all possible investment vehicles. So far, the precious metals have been the most popular, though some investment potential is emerging in a wider range of commodities.

The BMA, and licensed dealers and brokers, say that the flow of funds passing through Bahrain for investment in commodities is still relatively light. A good proportion of local business is taken out of the area by visiting bankers such as the Union Bank of Switzerland (UBS), and British M.L. Daxford and Company. There is also limited understanding of all the delightful subtleties of the market. One of the most attractive is the absence of explicit interests on money invested in commodities.

Commodity markets also lack two-way interest, the necessary prerequisite for a mature market. Experienced commodity specialists like Tioo Barundun, manager of Credit Suisse's OBU, say that it will take at least two years before Bahrain begins to rival Hong Kong and Singapore. The consensus is that the longer-term prospects are much brighter, particularly once investors understand that commodities can provide a relatively risk-free stream of market rate earnings with no loss of liquidity.



Bank Sets a Goal

(Continued from Page 7S)

Libyan Arab Foreign Bank. He negotiated Libya's shareholding in Fiat and is on the board of the Italian company and of its vehicle subsidiary Iveco.

Mr. al-Saud's other directorships include Union de Banques Arabes et Françaises (UBAF), Union de Banques Arabes & Nipponaises (UBAN), Union de Banques Arabes & Européennes (UBAE), Adiabank (Peru) and Banco Arabe Espanol. He is also deputy chairman of Arab International Bank in Cairo.

ABC's chairman, Mr. Abdel-Wahhab Ali al-Tanjar, is also chairman and managing director of the Kuwait Foreign Trading, Contracting & Investment Company. Other directors of ABC are Shaikh Fahd Mohammad al-Sabah, Shaikh Ali Jarrah al-Sabah, Mr. Wahid Omar Bughghais and Mr. Mohammad al-Moghrabi. In charge of loans and syndications is Morven Hay, formerly with the Jeddah-based National Commercial Bank.

Strategy ABC has given priority to investment, syndicated loans and trade finance. Mr. al-Saudi em-

phasizes that the bank does not aim to compete with smaller banks. He says that part of the strategy has been to provide new and more flexible facilities than the simple syndicated loan, facilities that the client can choose if he wants to use, partially or wholly according to his short-term needs.

To be seen as a "bank of banks" in the Arab world was the target at the beginning. ABC's successful establishment in the international loan market and balance sheet, which on June 30, 1981, showed assets of \$3.47 billion and deposits of \$2.54 billion, seem to illustrate that it is well on the way to fulfilling its ambitious aim.

Correction

IN LAST Friday's special supplement on banking and finance in Latin America, it was reported that the Arab International Bank (AIB) was one of Arabbank's two largest shareholders. In fact, AIB owns 2.5 percent of Arabbank's shares, while the Libyan Arab Foreign Bank and the Kuwaiti Foreign Trading, Contracting and Investment Co. are the two largest shareholders, with 12.5 percent each.

Petrodollar Fears

(Continued from Page 7S)

States — and other industrial countries — OPEC members have fairly recently begun to seek safe investments in the Third World. Kuwait has again led the field, with large investments in joint-venture projects in Asia, other Arab countries and Latin America. In many of these, Kuwait acts through investment companies or merchant banks in which the government has substantial or majority holdings.

These investments have supplemented OPEC concessionary aid to developing countries. The seven Arab OPEC members gave an average of 2.65 percent of their gross national product in 1980, seven times more than the average for 17 countries belonging to the OECD Development Assistance Committee.

In addition, Arab banks have greatly increased their lending to the less developed countries (LDCs). They are also increasingly taking over from Western banks the role of recycling oil revenues, particularly through the Euromarkets.

The Bahrain-based Arab Banking Corp., which was only incorporated last year, is now in the top 10 of world banks lead-managing syndicated loans. It lead-managed loans totaling about \$9.5 billion in the first half of 1981, followed by Gulf International Bank with \$6.7 billion. Between them, the two have outpaced Chase Manhattan Bank, which, with \$15 billion, remains the most active lead-manager.

The growth of Arab international banking has been a relief to Western banks, which by the late 1970s had become concerned at the extent of their sovereign risk exposure in developing countries, which needed to borrow heavily to finance their oil deficits.

The share of non-oil producing, non-Islamic LDCs in Arab bank lending has soared from 3 percent in 1976 to 32 percent in 1980. In absolute terms, total lending more than tripled during the period. Much of this is done by national or consortium banks in which governments have substantial holdings, and often reflects political as much as financial considerations. Arab institutions, for example, have maintained their lending to countries such as Brazil, which Western bankers increasingly feel is too risky a borrower.

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# in the ARAB WORLD

## JORDAN

No Room for Complacency Despite Expansion Of System, Healthy Trends in the Economy

By John Roberts.

JORDAN'S FINANCIAL and banking sectors have expanded considerably in recent years. In 1978, the Amman Financial Market — or stock exchange — opened its doors for the first time. In 1979, the first locally syndicated loans were raised. In 1980, deposits with commercial banks recorded a 36.3 percent increase.

But while the underlying trends remain healthy, none of the banks and finance houses can afford to be complacent. In 1980, commercial credit rose by only 21.2 percent, to 563.9 million Jordanian dinars (\$1.8 billion), from JD 465.1 million (\$1.5 billion) at the end of 1979. This was much lower than the 39.7 percent growth recorded during 1979 and shows that the move to curb money supply introduced in June, 1979, were having some effect.

In order to encourage investment, the Central Bank of Jordan on July 26, 1981, issued a circular that requires commercial banks to bring their participation in government bonds and bills, and related securities, to 10 percent of the volume of their deposits. Merchant banks were required to ensure that five percent of their deposits were used in this manner.

The move increased the impact of measures ordered the previous month, when the government had first sought to reduce fresh money supply by pushing surplus funds into investment. In June the commercial banks were told to channel three percent of their total assets into treasury bills and five percent into development bonds or issues floated by public corporations and issued through the Central Bank of Jordan. But in July these figures were raised to four and six percent respectively. The net effect of the measures should be to raise commercial bank participation in such instruments from a comparatively low level of JD 75 million (\$23 million) by the end of this year.

**Government Involvement**  
Government involvement in the banking system has, generally, been orthodox. There has been suggestion that high interest rates be encouraged to control credit, and interest rates have remained low by world standards. However, the bank's ability to increase interest rates to meet market conditions was assured in 1979 when the au-

thorities removed a nine percent interest rate ceiling imposed when the country was under Ottoman Turkish rule.

Central Bank officials argue that the absence of strict controls has helped the development of the banking system, since it has encouraged ordinary people to use the system.

The bank's role in transforming Jordan into a money-oriented economy is thus crucial — but there are signs that much work has still to be done. Central Bank officials believe that perhaps only 30 to 50 percent of all remittances from Jordanian and Palestinian expatriate workers are sent through regular banks. In 1979, such remittances totalled JD 180.4 million (\$611.5 million), while in 1980 they rose 28 percent to JD 236.7 million (\$802.4 million) — and the trend for 1981 was even better, with JD 86.2 million (\$278.7 million) in remittances during the first quarter alone.

In order to encourage a further increase in remittances — and to end the flow of "suitcase" money from expatriates who prefer to remit their own funds in person — the ceiling on foreign currency deposits was raised in May, 1979. The growth in remittances has also increased the money supply at a faster rate than Central Bank officials had expected. But the move to raise investment requirements should help resolve the problem.

The commercial banks are confident of a successful future. Petra Bank recently became the first bank in Jordan to computerize its operations fully. In July, 1981, it won approval from the Central Bank to issue a credit card to account holders. This will be done in conjunction with Visa International. Since its foundation just three years ago it has become the fifth largest of Jordan's 17 commercial banks.

Petra Bank, in which Beirut's Middle East Banking Company (MEBCO) and the Geneva-based Socofi, each hold a 20 percent stake, is known for its innovative procedures: It first succeeded in securing many of its account holders by offering them a free life-insurance plan with all savings accounts. Its success can be gauged from the fact that its shares, quoted on the Amman Financial Market, are regularly traded at about two and a half times their original

value when the bank was founded in 1977/78.

The most venerable — and influential — of all Jordan-based banks remains Arab Bank. Founded 51 years ago, Arab Bank has spread throughout the Arab world to meet the needs of the Palestinians. Yet Arab Bank is more than just a Palestinian bank. With balance sheet footings of around \$7 billion, it is the second largest bank in the Arab world. In 1980, despite losses incurred from the Saudiization of its three branches in Saudi Arabia, it still secured both increased profits and, more importantly in a society geared to asset increases, a rise in deposits.

The 1980 consolidated balance sheet stood at JD 2.2 billion (\$7.1 billion), with assets totalled at JD 1.4 billion (\$4.8 billion), 12 and 13 percent respectively above 1979 levels.

**Arab National Bank**  
These results were achieved despite the Saudiization of the Saudi branches — in which Arab Bank now has just a 40 percent share in their new guise as the Arab National Bank. These had contributed JD 420 million (\$1.4 billion) — or 22 percent — to the 1979 consolidated balance sheet. Arab Bank has also survived a variety of other crises, notably the closure of its branches in what is now Israel, following the creation of the Jewish state in 1948 and the 1948/49 Arab-Israeli war, the loss of its branches in the West Bank after the 1967 war and a financial crisis during the 1973 Arab-Israeli war.

Yet it has not merely survived, it has thrived, building strongly on its reputation as a bank that will pay depositors promptly, both in good times and in bad. As a result, its custom and operations have spread far beyond the original Palestinian clientele that opened accounts when Abdul Hammed Shoman founded the bank in Jerusalem in 1930.

Arab Bank's offshore banking unit in Bahrain has become lead manager for the biggest series of construction guarantee facilities to be syndicated by any of the Saudi construction companies. The OBU, under senior manager Mahram Rahal, has now arranged seven such guarantees for the Saudi Oger company, one of which alone was worth more than 1,000 Saudi Riyals (\$292 million).

**Global Expansion**  
Arab Bank has expanded across the globe. It has branches in Britain, France and Greece and is establishing one in New York and looking at the possibility of starting up operations in Latin America. It also has an offshoot in Switzerland. Arab Bank (Overseas) Ltd., and a merchant bank in London. Yet the bank remains more cautious, less trusting, than some of the Arab world's newer billion-dollar banks, and retains an air of familiarity that may well serve it better in the years ahead than any flashy display of its undoubted financial muscle.

Amman, still expanding rapidly, nurtures the dream of becoming a major center for Arab banking. Arab Bank has shown the Jordanian capital can be a good place from which to build a thriving business, and the success of the other commercial banks provides further proof. Moreover, the nature of Jordanian banking operations is expanding, and specialized facilities are becoming available.

The Arab Finance corporation and the Arab Jordan Investment Bank were set up in 1979 as mixed Arab-Jordanian ventures, while Islamic Bank has been set up to cater for customers who wish to use banking facilities in accordance with strict Islamic tenets, in which profit sharing is allowed, but interest is not.

## QATAR

Monetary Agency Begins to Exert Power, Government Backing Increased

By Michael Petrie-Ritchie

IT HAS been a long process but the Qatar Monetary Agency (QMA) is finally starting to show many of the attributes of a central bank.

Its powers have grown considerably in the past two years and government approval is expected soon on a package of fiscal measures designed to give it added muscle in dealing with the banking sector.

Most importantly, the measures will help the QMA to tackle the liquidity shortages experienced periodically by the financial sector here and in other Gulf nations in recent years, caused largely by an outflow of funds attracted by higher interest rates overseas.

QMA Director-General Majid al-Majid says he expects the government to give the go-ahead for the QMA to fix reserve requirements for the country's banks that will make any overseas deposits by them prohibitively expensive. Mr. Majid talks in terms of having the power to require banks to keep up to 20 percent of liabilities in local liquid assets, but he is quick to point out, "We will, of course, start by fixing the reserve requirement lower than 20 percent."

The QMA is also seeking approval to start a discount operation "for certain commercial papers," Mr. Majid says. This move, which would give banks access to short-term funds, appears to be popular with many Qatar bankers. The QMA also wants the power to extend soft loans, both medium- and long-term, to help banks through serious liquidity shortages.

**QMA's Growth**  
For several years after its formation in 1973, the QMA was widely regarded as little more than a currency-issuing agency. In 1977, when it moved to its palatial headquarters on the Doha Corniche, it had a staff of only six. This has since grown to 115, about one-third of them Qataris.

Its authority was given a boost at the end of 1979 when it helped the government take control over the fixing of interest rates. The rates previously had been regulated by a gentleman's agreement between the commercial banks. Deposit rates now vary from 3 percent for seven-day deposits to 6.5 percent for deposits of longer than one year, with a maximum of 7 percent paid for deposits of more than 100,000 Qatar riyals. Lending rates are fixed at 7.5 to 9.5 percent, and the interbank rate, which is not fixed, averages about 10 percent, although it has gone as high as 15 percent.

While these rates are roughly the same as those under the previous interbank agreement, many bankers feel the new system is not flexible enough to bridge the large gap between local and international interest rates and thus help to stop the exodus of surplus capital.

The QMA recognized the problem and in 1980 urged the raising of the interest rate ceilings by 2 percentage points. But the government remained firm, arguing that high interest rates would harm local trade and push inflation up. According to government figures, inflation was 6.8 percent in 1980, and rose to about 9 percent early this year.

**Qatar National Bank**  
Because of staff limitations, one role QMA is unlikely to be able to assume for some years is that of government banker. Most of Doha's 13 banks handle government deposits, but the largest portion of state business is done through the Qatar National Bank (QNB).

QNB is 50-percent government-owned and dominates the nation's commercial banking. At the beginning of this year it accounted for

60 percent of all deposits and 36 percent of bank-lending in Qatar. It claims a deposits-to-advances ratio of less than 60 percent, which compares with the 85 percent of the British-owned Chartered Bank.

QNB is the only Qatari-owned bank with offices overseas. Its two branches in London and one in Paris handle most of its foreign business, though this has been reduced since escalating interest rates prompted the government last year to prepay two QNB-arranged Eurodollar loans totaling more than \$100 million. "We have been conservative in international business because of the uncertain-

ty of international interest rates," says Qatani Masri, QNB's assistant general manager.

Although the bank's profits rose by 10 percent in 1980 to 63.7 mil-

**The QMA at first was regarded only as an issuer of currency.**

lion Qatar riyals, QNB had an otherwise indifferent year. Total assets and liabilities fell by 20 per-

cent to 4,255 billion Qatar riyals. "We don't believe in window dressing," Mr. Masri says. "There was reduced demand for credit during the year, but our figures were made worse when the government paid large sums of money to contractors at the end of 1980."

All of Qatar's banks are looking for better results next year after steady growth in 1981. This year is the first since 1977 that the government has significantly increased its expenditures. "But it takes about one year for the increased funds to filter into the economy," says James Kemp, manager of the Chartered Bank, which became

Qatar's first bank when it opened a branch here more than 30 years ago. The banks have had a particularly lean period since the government cut expenditures severely in mid-1977 in a move to fight inflation, then at 35 percent.

Prominent in all discussions with Qatar bankers are the country's plans to develop the natural gas reserves of the offshore North Field (formerly called the North West Dome). After several years of delay, the project is now moving and looks likely to reach a total investment of close to \$6 billion, including the building of a liquefied natural gas plant.

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## Islamic Banking System

(Continued from Page 75)

but little prospect of commercial viability. This, Mr. Abdul Qader said, is the role of the development agencies. The IIC seeks instead to help the private sector become established.

When a project is proposed, the company carries out a feasibility study and, if satisfied, will put up a part of the share capital. As the project develops, the partner is expected to buy out the IIC's holding, thus returning company funds for further investment. Should the project be unsuccessful, however, the company can send in a management team, buying out the original partner and thus protecting its investment.

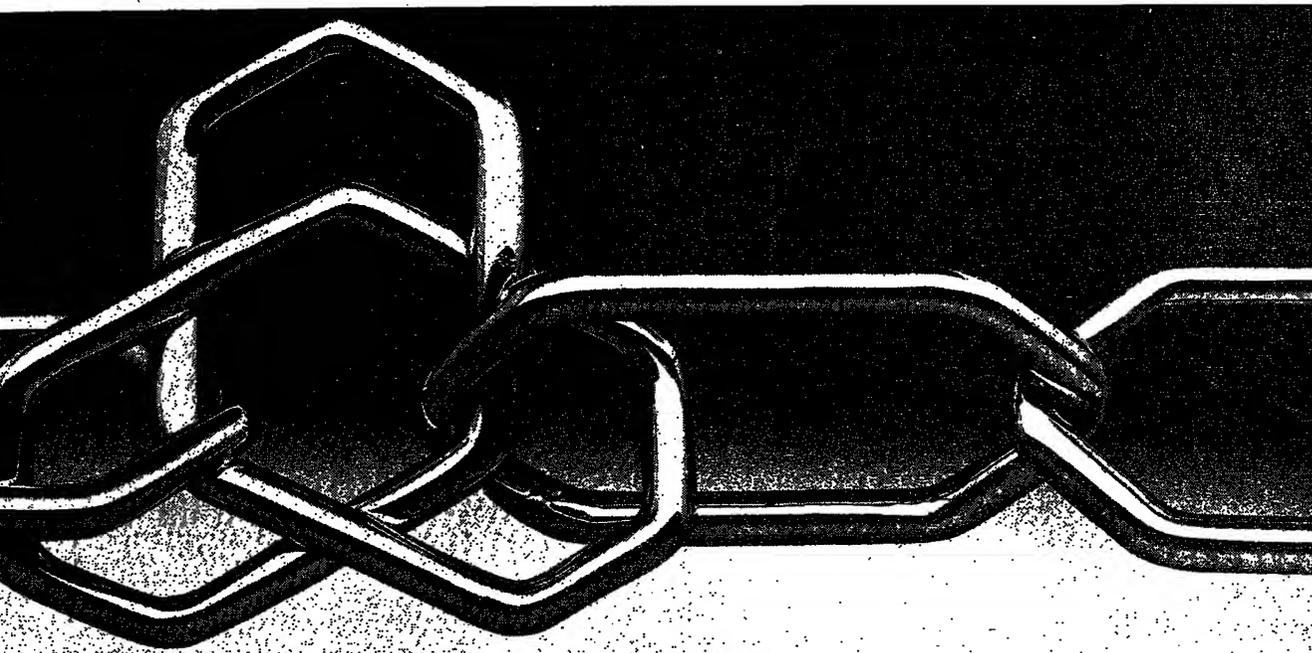
The strength of this system is that the company's funds will be in constant circulation, offering opportunities to new entrepreneurs — all intended to help economic growth in the Islamic world and thus to promote long-term, profitable markets less dependent on the West. In addition, the entrepreneur — who under normal financing arrangements would risk mortgaging his future to pay escalating interest on bank loans — finds himself with working capital available and no interest, only a

small initial servicing fee; the rest of the payment comes from profit-sharing.

Mr. Abdul Qader believes that the key to all this is the small investor. Although each may not have a lot of spare cash to invest, the total potential capital is enormous. More importantly, he said, as the system develops the small investor will see his money at work and may even benefit in job opportunities.

It should be added that the major drive taking place among Arab and Islamic countries to intensify infrastructural development with funds from the oil-producing states provides a vital backdrop for the Islamic Investment Co. in the private sector.

**MOST** of the articles in this special supplement were written by members of the staff of the Middle East Economic Digest. Other contributors are Alan Tillier, a British free-lance journalist based in France, and Ken Whittingham, foreign news editor of the Qatar News Agency.



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## ALGERIA *Government Seeks to Inject New Life in Highest Management Circles*

By Michael Frost

A RECENT, comprehensive reshuffling of the heads of Algeria's major financial institutions is symptomatic of the government's current keeness to inject new life into the management of the country's finances.

There have been changes of governor at the Banque Centrale d'Algerie (BCA) and of director-general at the state investment bank, Banque Algerienne de Developpement (BAD), and the three state-owned commercial banks — Banque Extérieure d'Algerie (BEA), Banque Nationale d'Algerie (BNA) and Credit Populaire d'Algerie (CPA). In addition, new heads have been appointed to the state savings and mortgage bank, Caisse Nationale d'Epargne et de Prevoyance (CNEP), and to the customs service.

The most senior change concerns Mohamed Seghir Mostefai, the former BCA chief who played an important role in negotiating the release of the U.S. hostages from Iran. He is replaced by Mahmoud Aoufi, the former director-general of BAD, while Mr. Aoufi's job goes to Abdelmoumene Fawzi Benmalek. Mr. Mostefai's replacement may be due partly to his being ill earlier this year, for he is a respected figure with many years of financial experience dating back to a spell at the Tunisian central bank before Algeria's independence in 1962. He has been BCA governor since 1963, and is tipped by some Algiers diplomatic sources to become the next finance minister.

But the changes at the top of the commercial banks clearly reflect two major concerns: to create a sense of ambition and competition in more junior personnel by showing them that there are improved prospects for promotion, and to bring new blood into the banking system at a time when the government is seeking to make it more responsive to the current phase of the country's development.

**CPA Director-General**

Typical of the new appointees is Mohamed Terbeche, a former technical adviser at the Finance Ministry and one-time Algerian representative at the World Bank, who becomes director-general of CPA. Mr. Terbeche, who accompanied Planning Minister Abdelhamid Brahimi on his visit to Britain last year to present an outline of the 1980-1984 development plan to businessmen, is an enthusiastic proponent of change in the structure of Algeria's financial institutions.

The three commercial banks were established in the mid-1960s after the state took over the local affiliates that foreign banks — mainly French — had established before independence. The foreign

banks had since independence persistently refused to become involved with internal credit, insisting on financing foreign trade only. As their profits returned to their foreign-based parent banks in the form of commissions and high borrowing rates, these affiliates brought little benefit to the national economy.

The early role of the commercial banks was to provide medium-term credit, discounted through the BCA, to complement the budgetary funds disbursed by the specialized BAD. In 1970, it was decided that productive investment would no longer be financed through budgetary funds, but entirely through credit. In 1970 also, with the economy becoming increasingly complex, each of the three commercial banks was made solely responsible for the credit needs of a number of state enterprises.

Mr. Terbeche said that the next development will be designed to give banks more say in the financial aspects of project identification and implementation. It will also enable decision-making on smaller schemes to be decentralized regionally, thus modifying the present rigid system requiring central approval of all decisions made at the local level.

**Provincial Branches**

To this end, more branches of the existing commercial banks will be created in the provinces, and they will be better-funded and have more autonomy than provincial branches now have. This will have the additional benefit of assuring wider banking coverage of the less developed regions, particularly the High Plateaux and the South, where much industrial development is planned. The overwhelming majority of bank branches is now concentrated in the population and industrial centers of the North.

In addition, the established banks will relinquish some of their responsibilities to a number of new and more specialized autonomous agencies. A bank is to be set up to handle finance and agriculture, hitherto one of the responsibilities of the BNA. The next new bank to be approved is expected to take over from the BEA at least some of its responsibility for financing hydrocarbon schemes.

Mr. Terbeche said that the Finance Ministry is debating the optimum size of the new banks, and that the structure should have started to take shape by the end of the year. The benefits that would accrue, in terms of specialization, from having one bank solely responsible for each of the major state industrial enterprises have to be weighed against the question of "image abroad." By this, Mr. Terbeche means that the new banks

will have to be big enough to inspire confidence when they need to approach the international money market.

Algeria has in fact stayed out of the money market since the beginning of 1980, having borrowed massively in the 1970s to finance its rush to industrialize. There are no more plans to return to the market before 1982, Mr. Terbeche said. A more measured approach to investment — what the Heavy Industry Ministry's planning director, Abdel-Hamid Djebbar, calls a sequential mode of development — means that there is no longer such a need for quick, blanket finance. Instead, ministries and enterprises will increasingly seek finance tailored to the needs of individual capital schemes and equipment purchases.

Among the newer sources of finance the government is hoping

to tap are lines of credit with trading partners, similar to the Can.\$1.2-billion credit agreed to in 1978 with Canada's Export Development Corp. An agreement was signed in June on the first 6-billion-schilling part of a 30-billion-schilling credit to be made available by Austria's state-backed Oesterreichische Kontrollbank.

The government will also increasingly seek to barter crude oil for imported products and to create joint commercial banks with countries offering scope for increased trade. The first such bank has been created in Italy, with an initial capital of 10 billion lire equally subscribed to by the two partners. The bank will start operating after its statute is signed during Finance Minister M'Hamed Hadj Yala's visit to Rome in mid-September. Diplomatic sources in Algiers say that Italy was keen to

participate in the bank partly to "take the heat off" its export insurance. Last year, Italian Commerce and Industry Minister Antonio Bisaglia said that export insurance for Algeria totaled almost \$3 billion and could not be increased at least until gas started to flow through the Algeria-Italy TransMed pipeline, which is due to come on stream later in 1981.

Mr. Terbeche said that the next joint bank is likely to be set up with the Ivory Coast, where there is scope for increasing exports of wine and imports of coffee, bananas and other products.

In addition, the government will be hoping to finance almost all its equipment purchases through supplier credits and other forms of concessionary finance. In many cases, the choice of supplier will depend on the quality of finance available.

## Diminishing Role for the Small Banks

By Michael Petric-Ritchie

SEVERAL small banks in the Gulf region are little more than money shops. They are the legacy of the earlier days of oil wealth when many Gulf states lacked the administrative structure to control economic growth and were easy prey for entrepreneurs.

The initial investment in setting up a small bank — some have had capitals of barely more than \$1 million — is paltry compared with the rewards that can be reaped in a booming oil region.

And small banks can cause big headaches to their country of origin. Because of their meager resources, they are more vulnerable in times of banking crisis and liquidity shortage. There are many cases of governments having to bail out such banks. This is largely because the smaller banks are privately owned, sometimes by a few but often by many local shareholders. Thus the governments feel duty-bound to protect the interests of the local population and prevent such institutions from going under.

By nature, small banks do not get involved in the international markets. They are there principally to mop up surplus deposits, and many are active in local trade financing. Those that have a foreign shareholding often provide a useful link in repatriating to their home countries the remittances of foreign workers.

**2 Banks Beef Up**

The United Arab Emirates was one of the countries most affected by the uncontrolled growth of banks — it had 53 commercial banks at last count — and it is only beginning to deal firmly with the issue. Its newly formed Central

Bank has set up a minimum capital requirement of 40 million dirhams and is seeking to get small banks to recapitalize to this level or merge.

Two banks that beefed up their capital this year by finding new shareholders are the Ajman-based First Gulf Bank and the Bank of the Arab Coast (BAC) in Ras al-Khaimah. The tiny BAC was set up in 1975 with a 5-million-dirham capital, owned 49-percent by Lebanese interests. In January, its capital was increased twentyfold to 100 million dirhams. By comparison, the largest UAE bank, National Bank of Abu Dhabi, had total footings almost 300 times BAC's 1980 figure of 60 million dirhams.

**Foreign Role Reduced**

The small bank is also on the way out in Saudi Arabia. Most local banks have sizable asset-liability figures by any standards. Foreign participation is slowly being reduced by a determined policy of "Saudi-ization," aimed at bringing the kingdom's economy under tighter national control.

Doha Bank is the smallest and newest of Qatar's three national banks. Set up in 1979 with a capital of 15 million Qatar riyals, its shareholders include two state companies — Qatar Flour Mills and Qatar National Navigation and Transport — and two local insurance companies as well as private individual interests. Foreign banks pay a 50-percent tax on

profits and have been prevented since the mid-1970s from opening new branches.

**Discreet Deposits**

Still lacking a full-fledged central bank, Qatar's banks are not subject to as great a degree of government scrutiny as are, for example, Kuwaiti banks. Qatar banks are periodically heaped out of tight corners by discreet, and often very large, deposits from government funds. By comparison with other Gulf countries, Qatar's economy is not large and most banking activity is trade-related.

Kuwait's closely controlled banking system contrasts sharply with those of many of its neighbors. Kuwaiti financiers talk of their bank sector as the "most sophisticated in the Gulf." Its first commercial bank was set up 30 years ago and since then has been joined by five others.

The smallest of these, Burgan Bank, would rank among the largest in many other Gulf states. Only five years old, Burgan has a 14-million-dirham capital owned 51 percent by the government and by about 30,000 individuals. Like most "small" banks, Burgan's main activity is in trade financing, but in 1980 it managed four syndications, including a \$250-million loan for the National Bank of Yugoslavia.

Kuwait has reason to feel smug at how it has avoided the problems of overbanking. It appears that other Gulf countries are following its lead.

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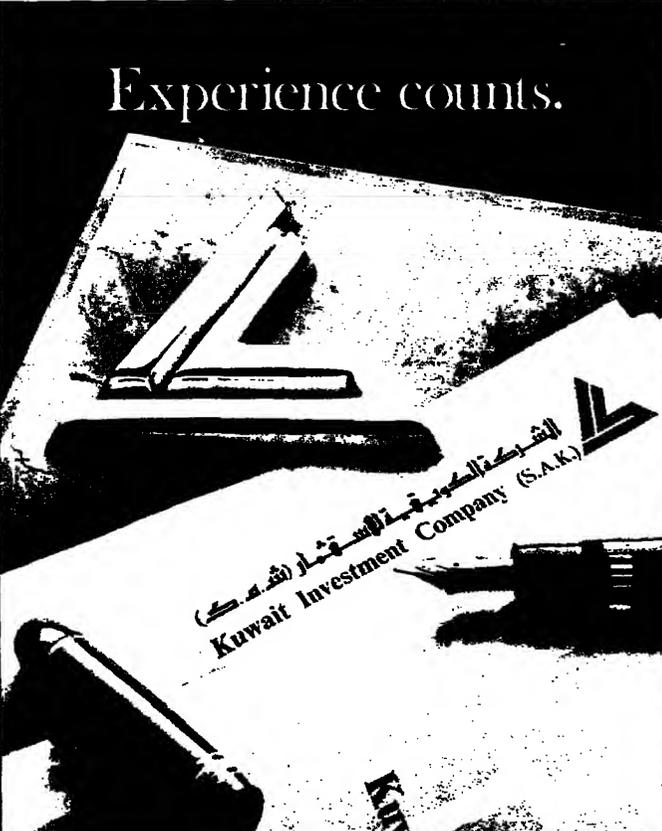
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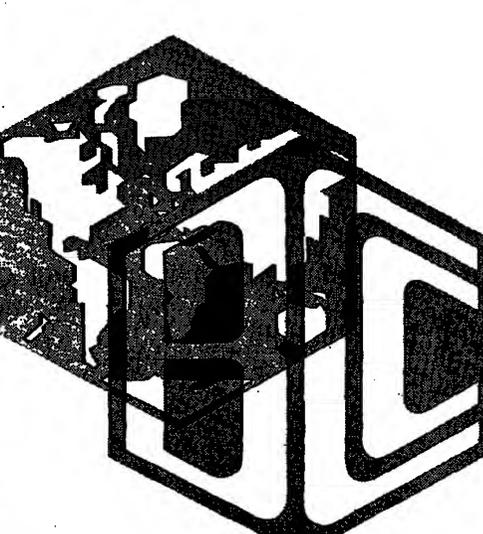
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Dunlop Sells Malaysia Unit

LONDON — Dunlop, the British-based tire company, said Tuesday it had agreed to sell its Malaysian rubber plantations to local interests. The price, to be paid in Swiss francs, is equivalent to about \$110 million.

The decision removes the threat of an all-out takeover bid for Dunlop by Malaysian interests, according to industry sources. Malaysia has officially said it wants control of all its resource-based industries.

New Venture Planned

Pegi is indirectly controlled by Ghafar Baba, a Malaysian businessman and politician who holds a 17-percent interest in Dunlop Holdings. The stake was acquired in a series of stock market forays started a little over 18 months ago.

15.3% August Export Rise Lifts Japan's Trade Surplus

TOKYO — Booming exports gave Japan a trade surplus of \$1.74 billion last month, lifting the surplus to its first eight months of the year to \$10.99 billion, according to Finance Ministry statistics released Tuesday.

The August surplus was down from \$2.36 billion in July but up from a \$305-million surplus a year earlier.

Domestic Slowdown The value of exports in August rose 15.3 percent from a year earlier, while imports showed only a 1-percent gain.

The visible trade surplus for the first eight months of 1981 compares with a \$3.43-billion deficit in the 1980 period and an original government prediction for a \$7.98-billion surplus for fiscal 1981 ending next March.

A slowdown in the domestic economy was underlined Tuesday by preliminary figures showing industrial production had fallen 2.2 percent in August after a 1-percent rise in July.

Officials said the August production fall resulted from a longer than usual summer holiday taken by many industries to adjust inventories.

The figures were released three days before Japan's Economic Planning Agency (EPA) is to meet to discuss measures to boost the business environment with help for depressed industries and increased imports to avert fresh trade friction with the United States and Western Europe.

EPA economists said the latest statistics taken together indicated that the economy will continue to shake off stagnation, but at a slower pace than expected.

The Finance Ministry said Japan's August overall balance of payments was in surplus by \$601 million after a \$781-million July deficit and an \$875-million surplus a year earlier.

The balance of payments in the first eight months of this year showed a \$2.33-billion deficit after a \$10.01-billion deficit a year earlier.

The August current-account surplus narrowed to \$393 million from \$871 million in July, and compared with a \$913-million deficit a year earlier.

The current account, which embraces visible trade and so-called invisibles such as insurance, was in surplus by \$643 million in the first eight months after a \$12.21-billion deficit in the 1980 period.

The transfer of surplus deficit narrowed to \$75 million from a \$186-million deficit and compared with an \$89-million deficit a year earlier.

The August long-term capital account balance turned into a surplus of \$253 million from a \$1.44-billion July deficit.

This was due mainly to reduced Japanese investment in foreign stocks and bonds and increased investment by non-residents in Japanese securities.

U.S. Imports Of Steel Items Up Sharply

European Price Seen Below Trigger Level

By Lydia Chavez New York Times Service NEW YORK — Steel imports by the United States rose 62 percent in August to their highest monthly level in nearly four years, according to the American Iron and Steel Institute.

While products used by the oil industry accounted for most of the rise, imports of sheet steel for the auto industry also increased substantially, the industry group reported Monday.

"What is worrisome is the sharp rise in sheet sales," said Gary Horlick, deputy assistant secretary of Commerce for import administration. "We will definitely be watching these closely."

Analysts said the rise in products such as sheet steel indicates that the European producers, which have traditionally supplied the auto industry, are selling steel under the trigger price, the minimum price at which exporters are allowed to sell steel into the United States.

It is based on the cost of the Japanese producers and was set up to prevent exporters from dumping steel in the United States. The Commerce Department monitors the mechanism and is authorized to investigate sales under the trigger price.

Steel imports rose to 2.23 million tons last month, compared with 1.37 million tons in August of last year and 1.66 million tons in July. The August figures surpassed the record set in February 1978, when imports rose to 2.2 million tons.

Steel products used by the oil industry climbed to 732,000 tons compared with August of last year's imports of sheet steel rose 62 percent, to 402,000 tons.

William De Lancy, chairman and chief executive officer of Republic Steel Corp., called the increase "critical" and said that imports accounted for nearly 25 percent of the market's August.

The Reagan administration has been unwilling to intervene in foreign-exchange markets to stabilize currency values, forcing foreign central banks and governments to tighten money and push up interest rates, so as to protect their currency values, in the face of slumping national economies.

In his Per Jacobsson lecture during the annual meeting of the International Monetary Fund in Washington Monday, Jelle Zilstra, president of the Bank of the Netherlands, implied criticism of the Reagan administration for pursuing the policy of "Mr. Market knows best" — that is, for letting the market alone decide foreign-exchange values.

The worry is that this laissez-faire approach to the currency markets, when joined to monetarism (the doctrine of relying on slow monetary growth to rid the system of inflation), will force recession upon the international economy. Indeed, some U.S. economists do see a possibility that the world is ripe for the most serious recession of the postwar period, if not a depression as severe as that of the 1930s.

Many economists believe that President Reagan has put himself in a serious bind for several years to come by his plans for huge tax cuts and military spending increases and that the underlying pressures on the U.S. and world economies cannot be resolved until a more stable and less risky course is mapped for U.S. fiscal policy.

W. Europeans, Russia Sign Pipe Deal

By John Tagliabue New York Times Service

BONN — A joint venture of West German and French companies signed Monday the first contract in what is expected to be the biggest East-West trade deal ever, agreeing to supply gas compressor stations from Siberia to Russia's western border, it was disclosed Tuesday.

A spokesman for Mannesmann, the West German steel company, said that representatives of a joint venture consisting of Mannesmann Anlagenbau, a unit specializing in plant construction, and Creusot-

Loire, the French steel company, signed contracts in Düsseldorf Monday to deliver and install 22 gas compressor stations on a pipeline that is to ship Soviet gas from western Siberia to Western Europe beginning in the mid-1980s. The spokesman, Klaus Germann, said the contracts are worth 2.2 billion Deutsche marks.

Politics and Business The disclosure came one day after delegations of West German and Soviet government and industry officials concluded five days of talks in Moscow on ways to broad-

en West German-Soviet economic relations. But the Mannesmann spokesman denied the two events were directly related.

"They talked politics," Mr. Germann said. "We talked business."

Mannesmann also agreed to supply compressor equipment, including piping, systems, skirts, pumps and other aggregates worth 135 million DM.

Agreements were also concluded whereby AEG-Kanis, a unit of the West German electrical company AEG-Telefunken, will supply 47 compressor turbines worth 700 million DM, and John Brown, a

Glasgow-based company, will supply 21 turbines, beginning in August, 1982.

A spokesman for AEG-Telefunken in Frankfurt said General Electric would supply rotors for some of the turbines, but he was unable to disclose their value.

U.S. Displeasure Both the Carter and Reagan administrations have expressed displeasure with the pipeline deal, fearing excessive Western European industrial and energy dependence on the Soviet Union might weaken Western solidarity. But the need for alternative energy sources and industrial orders, and the desire for broadened economic relations with the Russians for political reasons, caused European leaders to conclude the deal despite U.S. objections.

AEG spokesman Friedrich Bender said a total of 41 compressor stations will be installed on the pipeline, which is expected to transport more than 100 trillion cubic feet of gas annually from the Urengoy gas field, near the Yamal Peninsula in western Siberia, to six Western European countries.

Contracts for 57 turbines for the remaining 19 compressor stations are expected to be awarded soon to Italy's Nuovo Pignone, a subsidiary of the state-controlled ENI Nazionale Idrocarburi, Mr. Bender said.

AEG-Kanis is also bidding for contracts to deliver electrical control components, communications and remote-control systems for the pipeline, he added.

French Subsidy The Mannesmann-Creusot-Loire grouping underbid competitors, including a group of companies led by AEG-Telefunken and Salzgitter, the state-owned West German steel company. Though no financing details were released, it is thought the French-Kanis group's low bid was at least partly due to French government subsidized credits.

Meanwhile, talks are continuing between Soviet and Western industry officials on two outstanding sectors of the pipeline deal: Deliveries of 3 million metric tons of steel pipe, estimated to be worth more than 4.6 billion DM, and the sale price of the natural gas Russia will deliver.

But at the meetings that ended in Moscow on Monday, Soviet and West German officials expressed confidence that a final agreement might be reached before Soviet leader Leonid I. Brezhnev visits Bonn for talks with Chancellor Helmut Schmidt in late November.

NYSE Prices Extend Rally 2d Day

From Agency Dispatches

NEW YORK — Prices on the New York Stock Exchange closed higher for the second straight day Tuesday, although a rally near midday lost some of its steam in the afternoon.

The Dow Jones industrial average had gained about 12 points at midday, but finished up only 3.33 at 847.89. Advances led declines by about 1,200 to 370 and volume narrowed to 50 million shares from 61.3 million Monday.

Institutional Buying Analysts were still unsure whether the market is reversing its four-month decline or in the midst of a technical rally based on bargain-hunting that may run out of fuel in a few days.

Harry Laubscher of Paine Webber Mitchell Hutchins said stocks will come back to test Monday's lows before definitely turning around. "If the test is successful, there should be a rally lasting three to eight weeks," he said.

Bargain-hunting, particularly by institutions, was given as the major force behind the gain. Block trades of 10,000 shares or more, a mea-

sure of institutional buying, rose to 851 from 787 Monday.

So many stocks are selling at bargain prices that the economy would have to really fall apart for the market to go much lower," Hildegard Zagorski of Bache Halsey Stuart Shields said.

Monday morning, when the market had dropped about 14 points in the opening, more than 600 issues hit their 52-week lows.

Analysts saw little support for the market other than bargain hunting, however. The primarily negative outlook for interest rates and the federal budget deficit which held prices down all summer has not changed, and many stocks may still remain their slide as a result, they said.

Railroads Gain Technology and railroad stocks were two strong performers Tuesday. Railroad stocks pushed the Dow Jones transportation average up 6.31 points.

Burlington Northern gained 1 1/2 to 41 1/2, CSX 1 1/2 to 45 1/2 and Chicago-Milwaukee 3/4 to 39 1/2.

Takeover issues did well. Arcata Corp., which agreed to merge into a new company to be formed by Kohl-

berg Kravis Roberts, gained 4 1/2 to 33 1/2. Gino's rose 2 1/2 to 1 1/2 on news that an unidentified suitor approached it about a takeover.

Colt Industries lost 2 1/2 to 80 1/2. Stockholders of Penn Central said they would investigate that company's proposed takeover of Colt.

Coastal Corp. rose 2 1/2 to 38 1/2. It said it would study possible redeployment of its assets.

Dollar Lower In other corporate news, Sunbeam Corp. rejected a \$32-a-share tender offer by IC Industries for up to 7,250,000 of Sunbeam's shares. Sunbeam said the offer "does not fully reflect the value of the company."

Kaiser Aluminum & Chemical Corp. said it will raise prices as much as 9 percent for a wide range of its common alloy aluminum sheet and plate products, effective Thursday.

In London, the dollar closed lower on the day but still above its softer opening levels, dealers said. The dollar slipped back from its highs on profit taking and news that Marine Midland Bank cut its broker loan rate to 16 percent from 17 1/2 percent, they said.

Stocks Prices Recover in London, Tokyo

Reuters

LONDON — Stock markets recovered their nerve and prices rose strongly in most financial centers Tuesday, with London and Tokyo making record gains that erased all of Monday's heavy losses.

The turnaround was sparked by the late surge on Wall Street Monday. The Reagan administration has been unwilling to intervene in foreign-exchange markets to stabilize currency values, forcing foreign central banks and governments to tighten money and push up interest rates, so as to protect their currency values, in the face of slumping national economies.

The worry is that this laissez-faire approach to the currency markets, when joined to monetarism (the doctrine of relying on slow monetary growth to rid the system of inflation), will force recession upon the international economy. Indeed, some U.S. economists do see a possibility that the world is ripe for the most serious recession of the postwar period, if not a depression as severe as that of the 1930s.

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BUSINESS NEWS BRIEFS

Chrysler Chief Expects Quarter Loss, Paper Says

CHICAGO — Chrysler Chairman Lee Iacocca has confirmed that the auto company will lose money in the third quarter, but declined to speculate on industry reports that the shortfall would approach \$200 million, according to an interview in the Detroit News.

Separately, at the Chicago unveiling of Chrysler's 1982 models Tuesday, Mr. Iacocca said that third-quarter results will be "a little worse than we thought and a lot worse in the fourth quarter if interest rates remain at 19 or 20 percent." In the third quarter of 1980, Chrysler lost \$489.7 million.

Mr. Iacocca said that his previous announcement that Chrysler will not raise prices on its basic 1982 models was "a calculated risk," adding that "we won't be making any money at these prices, that's for sure."

Murphy Oil Believes It Has Gas Find Off Spain

NEW YORK — Murphy Oil Corp. believes it has found reserves of at least 1 billion cubic feet of natural gas in the Bay of Biscay off Spain, Chairman Charles Murphy Jr. told securities analysts Tuesday.

However, he said the company's partners in the area disagree on those numbers and want to drill more wells to confirm them. Murphy has an 18-percent interest in 1 million acres in the Bay of Biscay.

Executive Vice President Jack McNutt said Murphy is in the process of acquiring one-third interest in 150,000 more acres in the Bay of Biscay. "The discovery in the Bay of Biscay, now officially named the Gaviota field, could be Murphy's next major field," he said.

Penn Central to Sell Park Unit to Bally

NEW YORK — Penn Central Corp. said Monday it will sell its Six Flags Inc. theme park subsidiary for about \$140 million to Bally Manufacturing Corp. of Chicago.

The sale of Los Angeles-based Six Flags represents another step in Penn Central's plan to sell units that do not correspond with its emphasis on technology, energy and industrial manufacturing. The company is also negotiating to sell Arvida Corp., a Florida-based real estate subsidiary, and its Edgington Oil Co. refinery in Long Beach, Calif.

Bally is a manufacturer of slot machines, arcade games, and pinball machines and the owner of a hotel-casino in Atlantic City, N.J.

Group Seeking Kaiser Steel Includes Pharoan

LOS ANGELES — The investment group that earlier this month announced its interest in buying Kaiser Steel Corp. includes Ghairt R. Pharoan, a Saudi Arabian investor, and Daniel K. Ludwig, a reclusive 83-year-old billionaire shipping magnate, according to papers filed Monday with the Securities and Exchange Commission.

The group, which is headed by venture capitalist Stanley Hiller Jr., of Palo Alto, Calif., has acquired an option from the Henry J. Kaiser Family Foundation, to buy 17 percent of the Oakland, Calif.-based steel company for \$60 million. In announcing its purchase of the option from the foundation, the group said it "intends to enter into negotiations with Kaiser Steel, in anticipation of acquisition of the company."

Broken Hill Says Fiscal '82 Net May Decline

MELBOURNE — Broken Hill Proprietary Co. probably will not be able to match in fiscal 1982 its record performance for the year ended May 31, Chairman James McNeill told the annual meeting.

Broken Hill earned 258.1 million Australian dollars (\$295 million) in fiscal 1981. Mr. McNeill said the main problems will be the continued weakness of overseas steel markets, the strength of the Australian dollar, rising labor-costs and pressure on its oil and gas profits.

Toyota Motor Sees Decline in 1981 Production

TOKYO — Toyota Motor's production in 1981 might fall below last year's 3.28 million vehicles, which would be the first decline in output in seven years, a company spokesman said.

Rebound of Wall St. Prices Eases Fears

By Leonard Silk New York Times Service

NEW YORK — The rebound of Monday's close on the New York Stock Exchange, Wall Street breathed easier. The upshot of a tumultuous day in the world's stock markets was to strengthen the belief of economists that the long slide in stock prices did not signify the start of a severe worldwide recession.

Clearly, there was — and still remains — deep concern over high U.S. interest rates. But as economists in this country see it, the world economy is not at the brink.

Before the New York markets opened Monday, there was indeed some talk of world depression. Panics, if they pick up enough hysteria, can be self-validating, and there was in fact danger of this happening Monday. "There is panic in the Street," one stock analyst, Michael Metz, a vice president of Oppenheimer & Co., said shortly after Monday's opening. "The market looks as if it is having a free fall with no end in sight."

But the free fall was checked. The Dow Jones average stabilized and moved up smartly, closing on its strongest note with a gain of 18.55. Apparently, a majority of investors and their counselors, though well aware of the high interest rates and swelling federal budget deficits that have been pounding stock and bond prices, saw no justification for the fear abroad that a financial and economic collapse might be at hand.

Edward M. Bernstein, president of EMB Ltd., an international economic consulting concern, saw in the sharp selling overseas "renewed fears of a worldwide depression." In his view, such fears were exaggerated.

Mr. Bernstein contended that depressions in the 19th century and early 20th century resulted from the collision between the then-existing gold standard and

warmine inflation. Ultimately, the gold standard forced a severe deflation of prices, wages and other income, causing output to plunge and bringing mass unemployment.

At this juncture, Mr. Bernstein sees "no great danger" of deflation either in the United States or most other major industrial countries. He suggests, however, that the Reagan administration may have excited fears of deflation by suggesting that it was prepared to return to a gold standard, which might bring an abrupt and potentially disastrous end to the process of inflationary growth here and in other countries.

The administration has awakened anxieties that it is endanger-

NEWS ANALYSIS

ing economic expansion by a bewildering mixture of policies that some people fear will unleash more serious inflation and that others fear will lead to a savage deflation.

The administration has provided evidence for both fears. Its huge tax cuts, which total \$750 billion in the next five years, combined with a rapid buildup in military spending, which is supposed to make possible a 7-percent real rate of increase every year, have awakened anxieties of worsened inflation.

In congressional testimony Monday, Roger C. Altman, who was a Treasury official in the Carter administration and is now with Lehman Brothers Kuhn Loeb, said that the administration's tax cuts and military spending would take effect "in the midst of a relatively resilient economy, not a sinking one." The expectation, he added, would therefore be "upward pressure on prices."

This, Mr. Altman argued, would give the Federal Reserve no alternative but to continue to pursue a restrictive monetary policy, or to make it still tighter. "The supply of

CURRENCY RATES

Interbank exchange rates for Sept. 29, 1981, excluding bank service charges.

Table with columns for City, Currency, and Rate. Includes Amsterdam, London, Frankfurt, Milan, New York, Zurich, and DCU.

Dollar Values

Table with columns for Country, Currency, and Dollar Value. Includes Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, India, Israel, Japan, Korea, Kuwait, Malaysia, Mexico, New Zealand, Norway, Portugal, Saudi Arabia, Singapore, South Africa, Switzerland, Taiwan, Thailand, U.K., U.S.A., and West Germany.

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WEEKLY NOTIFICATION COMP TRENDS II A MANAGED COMMODITY ACCOUNT. Equity on January 1, 1981: \$100,000.00 Equity on September 24, 1981: \$282,268.31 after all charges

For information call or write Royal Fraser, or Ian Somerville, TAPMAN Trend Analysis and Portfolio Management, Inc., Wall Street Plaza, New York, New York 10005, (212) 269-1041. TAPMAN is a wholly owned subsidiary of Balfour, Beatty International Ltd.

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## Industry in U.S. Midwest Sees Longer Slump

By Winston Williams  
New York Times Service

CHICAGO — Auto plants and their suppliers are laying off workers once again. Steelmakers are complaining anew about imports. Appliance manufacturers are liquidating inventories. And farm equipment companies are cutting back their expansion programs.

Many industrialists in the Midwest had expected the economy to start recovering in the fourth quarter. But convinced now that they were wrong, businessmen in America's industrial heartland are bracing for a slump that could continue well into 1982.

Like Wall Street, the industrial belt is worried that persistently high interest rates will mean less business and more unemployment. Continuation of the slump, experts say, will delay the region's effort to rebuild its decaying industrial base.

"I don't see a rosy picture for jobs and production next year if the Fed sticks to its program," said Thomas Gitting, an economist for the Federal Reserve Bank of Chicago, referring to the Fed's policy of monetary restraint. "Things are going to be pretty darn flat all over, but this area will suffer more than the rest of the nation."

### Structural Changes

The nation's heavy-manufacturing belt — concentrated largely in Ohio, Indiana, Illinois, Michigan and parts of Wisconsin, Iowa and Pennsylvania — never recovered completely from the recession that began in the second quarter of last year.

The Midwest for the last half-dozen years has been "the focal point of structural changes that have squeezed its economy. It has suffered from rising imports of manufactured goods, and now a strong dollar has made U.S. goods more expensive abroad and has cut into the region's exports, particularly of machinery and grain."

Heavy manufacturing is vastly more important to this region than to the rest of the country. But many of the factories are old and obsolete, leading many companies to leave for more efficient plants in the Sun Belt. Even when old facilities have been rebuilt, the payroll of the remodeled plant is usually smaller because of new labor-saving machinery.

In the region is the worst in the country. High interest rates now threaten to prolong the slump and send unemployment even higher, experts say.

"Interest rates have put a lid on things that are manufactured in the Midwest," said Mitchell Froman, president of Manpower Inc., a temporary-help agency based in Milwaukee. "The products can't jump over the hurdle of high interest rates."

A Manpower survey of private sector hiring intentions in the fourth quarter showed a bleak picture for the nation, but the outlook for the Midwest was even more grim. Automobile executives, who had predicted a recovery for car sales in the fourth quarter, now say that the upsurge will not occur for another three to six months. In the meantime, said Gerald Meyers, chairman of American Motors, "it's going to be difficult." He said he expected employment and production at American Motors, currently at 50 percent of capacity, to "stabilize" in the coming months.

But domestic car sales slowed dramatically in the middle of September, falling to an annual rate of 6.2 million from the 7.6-million pace at the beginning of the month. Automakers responded by laying off thousands of additional workers. Last week the number of workers on indefinite layoff climbed to 166,650 from 158,550 the week before, while short-term layoffs increased to 50,450 from 23,005 in the prior week.

Production schedules were trimmed to slightly more than 80 percent of the level a year ago. These cutbacks will ripple through the glass, tire and steel industries.

Railroads, whose traffic patterns are generally a reliable indicator of the vitality of the industrial sector, said that the continuing slump in lumber traffic was a bad omen. "If lumber were moving, that would mean housing and manufacturing are ready to come back," said Lawrence Cema, president of the Santa Fe Railway, "but I don't see that happening at all."

Steelmakers are gloomy, too. Recently, Inland Steel, whose sales are a thermometer of the region's industrial health, said that orders for steel used in construction and in auto production and appliances were "most disappointing." It lowered its predictions for 1981 shipments to 90.5 million tons from 93 million tons, predicting that "the big surge may not come until later in 1982."

Another sign of steel troubles became apparent in Duluth, Minn., last week when an executive of Bethlehem Steel warned a seminar at the University of Minnesota that rising steel imports endangered \$5 billion in modernization projects announced this year by the steel industry.

Like their counterparts in appliances and farm equipment, steelmakers are worried about the high level of inventories, which many businessmen built early this year in anticipation of a strong recovery later in the year.

### Price War

General Electric has temporarily laid off all its 15,800 production workers at Appliance Park in Louisville, Ky., and some layoffs will be continued through December, the company said, to control bulging inventories of major appliances. Farm equipment makers, including beleaguered International Harvester and Allis-Chalmers, are engaged in an expensive price war to unload inventory.

The farm sector, where low commodity prices and high interest rates have put farmers in a sour mood, is the cause of much of the region's economic malaise. The poor prospect has led John Deere to slow its ambitious expansion plans.

"We're looking for a better interest-rate environment and the strengthening of market conditions before we get back to expansion," said Robert Hansen, Deere's president.

Paul Harmon, chief economist of Arco Steel, said he expected many other companies to adopt a similar approach to capital expenditures. "Investment horizons" are very short, he said, because of high interest rates and uncertainty over President Reagan's economic program.

These factors will depress capital spending for the present and for most of next year. Stretching out or canceling capital projects could delay the region's "reindustrialization" and postpone the return of competitiveness to some troubled companies, analysts said.

But gloom is not found everywhere. Pollsters said that consumer confidence was still relatively strong and that retail sales were holding up fairly well. The machine tool industry, which makes metal-cutting and metal-forming equipment, is busily working off a large backlog even after new orders plummeted in recent months.

## Clausen Defends 'Soft' Loan Policy of IDA

By Hobart Rowen  
Washington Post Service

WASHINGTON — In his first official appearance as president of the World Bank, A.W. Clausen took sharp issue Tuesday with charges by the Reagan administration that the World Bank ignores the private sector, and should toughen up its requirements for loans to middle-income countries, as well as to the very poorest.

In an address to the World Bank-International Monetary Fund annual meeting here, he warned bluntly that to scrap or limit subsidized aid through the World Bank's concessional arm, the International Development Association, might lead to "political and social instability" in the Third World, even touching off violence among the jobless in urban slums.

### Combination Approach

"There is no alternative but having an IDA-7 [the next scheduled three-year replenishment of IDA funds]," Mr. Clausen told a news conference. "There is just no other alternative for the poorest nations in this world that ... do not have access to the commercial markets."

But he said that the next replenishment would have to be structured differently, probably with less grant money from the rich nations. He implied that after 1983, IDA might have to borrow, from commercial markets as well as from donor countries, and that the U.S. share could be less than its 27-percent involvement in IDA-6.

The most critical of U.S. officials have suggested that the

World Bank's programs lately have degenerated into the equivalent of worldwide welfare. Others complain because it deals on a government-to-government basis.

Mr. Clausen brushed such criticisms aside. "You can't solve all of the problems with the private sector, no one's saying that you can," he said. "You can't solve all of the problems bilaterally." He said a combination approach is needed.

His defense of IDA, which has come in for the brunt of the U.S. criticism, was in unusually strong terms. "There is a general tendency to think that soft loans are made by soft-headed people that have got soft requirements," the former chief executive of the Bank of America told reporters. "Actually, the same criteria for economic return on the credits [as on World Bank loans] is expected."

Mr. Clausen told the joint meeting that IDA "must be continued" after the current funding expires in 1984. Statements by U.S. Treasury officials last week left open the question of whether the United States would participate in the next IDA replenishment.

Self-Interest  
Mr. Clausen said that the United States should continue to support IDA as a matter of self-interest.

"The issue is not whether IDA is effective," Mr. Clausen said in his speech. "It is nor is the issue whether IDA is a philanthropic society. It is not. An IDA credit is not a welfare check. It is a productive investment. Consider the countries that were IDA recipients only a few years ago: Korea, the

Philippines, Thailand, Ivory Coast, and some 15 similar cases.

"These countries have not only graduated from low-income to middle-income economies, but today are vigorous and valuable trading partners with the developed nations."

Treasury Secretary Donald Regan last week said that some countries now on the IDA roll should be asked to borrow at nonsubsidized rates at the World Bank, and that some of the World Bank's customers should go out into the private market.

### Graduation Process

Mr. Clausen, in effect, was responding that the World Bank had had such a policy from the beginning. He said at the news conference that countries such as Spain, Greece, Israel and Ireland had been graduated from the World Bank's "hard loan" window to the private market.

But the United States, which is readying a report on multilateral banks that will deal with this and other issues, apparently wants the World Bank to accelerate the graduation process at all levels. Mr. Clausen acknowledged the pressure, noting that the industrial nations are being forced to keep their budgets in check in response to inflationary pressures.

At the news conference, Mr. Clausen said that a change in the World Bank's gearing ratio, as proposed last year by its former president, Robert S. McNamara, is appropriate, but not realistic for at least five years.

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FRANC (Swiss)	7 %

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## 2 Gulf Nations Reportedly Cut Oil Prices; Trend Is Seen

BAHRAIN — Kuwait and Oman have trimmed their oil prices, according to industry reports Tuesday, and oil market analysts in the Gulf said this would put pressure on other exporters in the area to cut prices.

The Saudi oil minister, Sheikh Ahmed Zaki Yamani, has said Saudi Arabia, the biggest exporter, is having no trouble selling huge volumes of oil at its price of \$32 a barrel. But smaller Gulf states which charge more are struggling to cope with the present oil glut, each vying for another to take the lead in trimming prices, the analysts said.

The Middle East Economic Survey, an oil newsletter, reported that Kuwait had effectively done so by extending the credit period in which buyers can pay for crude. This resulted in a discount of up to

\$1.10 a barrel off its \$35.50 price, beginning Thursday. Oman, which unlike Kuwait is not a member of OPEC, meanwhile cut the price of oil going to Japan between October and December by \$1.50 to \$34, Japanese officials said in Tokyo.

British Petroleum called the Kuwait offer unacceptable. Industry sources said they believed BP, which buys 50,000 barrels per day of Kuwaiti oil, would seek even better terms.

Oil market analysts said BP's tough line is in part made possible by its successful diversification of crude supplies. It has just started shipping 20,000 barrels per day from Mexico, a non-OPEC member, a figure that is to rise to 40,000 BPD next year.

Pressure for price cuts grew after Nigeria, the OPEC member hardest hit by the oil glut, last month announced a \$4-per-barrel

discount on its \$40 price. Industry sources in London said this enabled it to boost output toward 1 million barrels daily, from half that in midsummer.

Libya and Algeria, which also charge \$40, have offered to barter their crude for goods, which analysts said could provide hidden discounts.

The analysts said attention would now focus on the United Arab Emirates, which charges \$36.56 a barrel for its main Abu Dhabi crude.

Emirates' Oil Ministry officials declined on Tuesday to comment on prices, but Oil Minister Mana Said al-Otaiba strongly supported the Saudi stand at an OPEC meeting in Geneva last month in saying that the average price of OPEC oil should fall.

Qatar, producing only about 400,000 BPD, was likely to follow the lead of its neighbors, the analysts said. It charges more than \$37 a barrel.

Saudi Arabia, the world's largest exporter, cut output by 1 million BPD to about 9.2 million for September, but Sheikh Yamani has said October's output would be reviewed in the light of market conditions. The level will not be announced until the end of October.

Net Asset Value  
on September 3, 1981

Pacific Selection Fund N.V.  
U.S. \$ 3.48 per U.S. \$ 1 unit.

Pacific Selection  
Fund N.V.

# BAT INDUSTRIES

## Interim Report: Six Months to 30 June 1981

### Group Results (unaudited)

Half year to:	30.6.81	30.6.80	31.12.80	change over June 1980
	£ millions			
Turnover	4,324	3,585	4,060	+21%
Trading profit	274	220	247	+25%
Interest paid less received	30	27	21	+11%
	244	193	228	+28%
Share of assoc. companies' profit before tax	34	19	41	+78%
Profit before taxation	278	212	267	+31%
Taxation	127	108	109	+18%
Profit after taxation	151	104	158	+45%
Minority interest	17	14	14	+21%
Net profit attributable to B-A-T Industries	134	90	144	+49%

### Industrial Analysis

Turnover	2,477	2,024	2,307	+22%
Tobacco	983	777	895	+27%
Retailing	410	369	340	+11%
Paper	252	233	232	+9%
Packaging & Printing	202	182	196	+11%
Other activities	4,324	3,585	4,060	+21%
Trading profit	212	169	165	+25%
Tobacco	15	(2)	44	*
Retailing	27	38	14	-29%
Paper	9	11	10	-18%
Packaging & Printing	11	4	14	+175%
Other activities	274	220	247	+25%

The results of overseas subsidiaries have been translated into sterling for the purpose of this report at rates of exchange ruling on the latest convenient date (7 September 1981). Comparative figures have been translated at rates ruling on 31 December 1980, since when sterling has depreciated against most currencies. The favourable effect of this exchange rate movement is estimated to have increased turnover by £580 million, trading profit by £42 million and net profit attributable to B-A-T Industries by £25 million.

Dividends  
The Directors have declared for payment on 4 January 1982, a second interim dividend out of the profit for the twelve months to 31 December 1981 at the rate of 8p per share on the Ordinary Shares. First and second interim dividends amount to £4.50, compared to the two interim dividends totalling 12.5p paid in respect of 1980.  
Transfers received in order by the Registrar of the Company up to 27 November 1981 will be in time to be passed for payment of the second interim dividend.

### Sir Peter Macadam, Chairman, comments:

- "Group turnover and profits show significant increases in the first six months, compared to the same period last year. It is satisfying to record growth at a time when so many economists are not at their best."
- "In the United Kingdom, where we have only about a fifth of our assets, our paper, and our packaging and printing businesses are still suffering the effects of recession, but our sales in the domestic cigarette market show a marked improvement and our export tobacco business is doing still better."
- "Activities overall in Continental Europe have held up well, although margins have been depressed."
- "BATUS, the holding company for our United States interests, is fulfilling promise by maintaining market share in tobacco and showing a sharp increase in the profitability of its retailing."
- "Tobacco has once more made its dependable major contribution ... turnover rose sharply, in sterling terms, and trading profits were up by a quarter. The success of Barclay in the USA continues to exceed expectations."
- "The full year's figures will depend on the rates of exchange ruling at the end of the year and if rates are at around the present levels I would expect a significant advance. Improvement will stem not only from this but also from continuing real increases in the turnover and profitability of many of the businesses that we have been building for years across the world."

These securities have been sold outside the United States of America and Japan. This announcement appears as a matter of record only.

### NEW ISSUE

29th September, 1981

## Sumitomo Metal Industries, Ltd.

(Sumitomo Kinzoku Kogyo Kabushiki Kaisha)

U.S. \$50,000,000

5½% Convertible Bonds Due 1996

Kidder, Peabody International Limited	Nomura International Limited
Daiwa Europe Limited	Sumitomo Finance International
S. G. Warburg & Co. Ltd.	Algemene Bank Nederland N.V.
Banque Nationale de Paris	Deutsche Bank Aktiengesellschaft
Kuwait Investment Company (S.A.K.)	The National Commercial Bank (Saudi Arabia)
Swiss Bank Corporation International Limited	Yamaichi International (Europe) Limited
Abu Dhabi Investment Company	Amro International Limited
Banca Commerciale Italiana	Banca del Gottardo
Bank of America International Limited	Bank Julius Baer International Limited
Bank of Tokyo International Limited	Banque Arabe et Internationale d'Investissement (B.A.I.I.)
Banque Française du Commerce Extérieur	Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg Société Anonyme	Banque de Neufize, Schlumberger, Mallet
Banque Populaire Suisse SA Luxembourg	Banque Worms
Berliner Handels- und Frankfurter Bank	Caisse des Dépôts et Consignations
Chase Manhattan Limited	Chemical Bank International Group
Commerzbank Aktiengesellschaft	Compagnie de Banque et d'Investissements. CBI
Crédit Commercial de France	Crédit Industriel et Commercial
Dai-ichi Securities Co., Ltd.	Deutsche Girozentrale — Deutsche Kommunalbank —
Dominion Securities Ames Limited	Euromobiliare
Gefina International Ltd.	Girozentrale und Bank der Österreichischen Sparkassen Aktiengesellschaft
Hessische Landesbank—Girozentrale—	Hill Samuel & Co. Limited
Kleinwort, Benson Limited	Kahn Loeb Lehman Brothers Asia
Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)	Kuwait International Finance Co. S.A.K. (KIFCO)
Kuwait International Investment Co. s.a.k.	Kyowa Bank Nederland N.V.
Manufacturers Hanover Limited	Merrill Lynch International & Co.
Morgan Grenfell & Co. Limited	Morgan Guaranty Ltd
Nederlandsche Middenstandsbank N.V.	Nederlandse Credietbank N.V.
The Nikko Securities Co., (Europe) Ltd.	Nippon Credit International (HK) Ltd.
Nomura International (Hong Kong) Ltd.	Norddeutsche Landesbank Girozentrale
Orion Royal Bank Limited	Osakaya Securities Co., Ltd.
Saitama Bank (Europe) S.A.	Salomon Brothers International
J. Henry Schroder Wagg & Co. Limited	Singapore Nomura Merchant Banking Limited
Société Générale	Société Générale de Banque S.A.
Svenska Handelsbanken	The Taiyo Kobe Bank (Luxembourg) S.A.
Union Bank of Switzerland (Securities) Limited	Union de Banques Arabes et Françaises—U.B.A.F. (Bahrain Branch)
Vickers de Costa International Ltd.	J. Vontobel & Co.
Westdeutsche Landesbank Girozentrale	Dean Witter Reynolds Overseas Ltd.
	Associated Japanese Bank (International) Limited
	Banca Nazionale dell'Agricoltura SpA
	Bank Brussel Lambert N.V.
	Banque de l'Indochine et de Suez
	Banque de Paris et des Pays-Bas
	Bayerische Vereinsbank Aktiengesellschaft
	Cazenove & Co. (Overseas)
	Citicorp International Group
	County Bank Limited
	Credit Suisse First Boston Limited
	DG Bank
	Deutsche Genossenschaftsbank
	Financière Dewaay S.A.
	Goldman Sachs International Corp.
	Jardine Fleming (Securities) Ltd.
	Kuwait Financial Centre, S.A.K.
	LTCB International Limited
	Samuel Montagu & Co. Limited
	National Bank of Abu Dhabi
	New Japan Securities Europe Limited
	Nippon Kangyo Kakumaru (Europe) Limited
	Okasan International (Europe) Limited
	Rowe & Pitman
	Sanyo Securities Co., Ltd.
	Smith Barney, Harris Upham & Co. Incorporated
	The Sumitomo Trust Finance (H.K.) Limited
	Tokai Kyowa Morgan Grenfell Limited
	Vereins- und Westbank
	Wardley Limited
	Wood Gundy Limited
	Yamatane Securities Co., Ltd.



AMEX Nationwide Trading Closing Prices Sept. 29

Tables include the nationwide prices up to the closing on Wall Street.

Main table containing AMEX Nationwide Trading Closing Prices for Sept. 29, listing various stocks and their prices.

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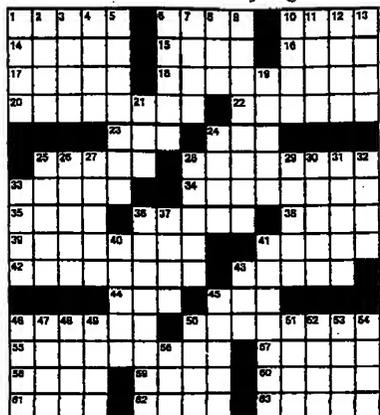
CLASSIFIED ADVERTISEMENTS (Continued from Back Page). Includes sections for REAL ESTATE, EMPLOYMENT, MOVING, INTERDEAN'S PRICES, and AUTOS TAX FREE.

Floating Rate Notes. Closing prices, Sept. 29, 1981. Table listing various floating rate notes and their yields.

Selected Over-the-Counter. Closing prices, Sept. 29, 1981. Table listing over-the-counter stocks and their prices.

CROSSWORD

By Eugene T. Maleshka

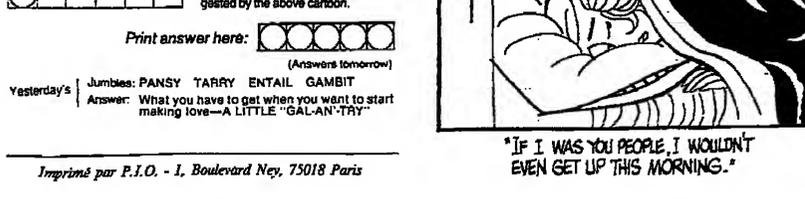
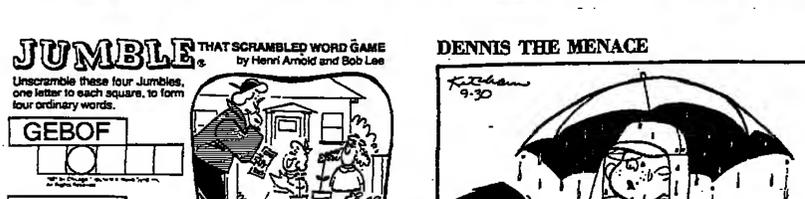


- ACROSS
1 Where St. Paulinus shipwrecked
6 Tabula
10 Not of the clergy
14 Kind of artery or vein
15 Ancient kingdom on the Persian Gulf
16 Part of an estate
17 Small, silvery food fish
18 Enchanted
19 Political party meetings
22 Photographer's word
23 Leaping light
24 What P. R. said he hated
25 Kind of dome in a Texas team's home
26 Ricochets
28 Pewter, for one
34 "Praise ye the Lord!"
35 Euler
36 Gambling game using 40 cards
38 Word with sun
39 Like a siren
41 "Ars gratia ars"
42 Expedient
43 Kind of furnace
44 Rwy.

- DOWN
1 File sect.
2 Sir Lawrence
3 Tadeusz
4 English painter
5 Risk
6 Old minstrel's instrument
7 Drows
8 Mating
9 Friendly
10 Intermine
11 Yearm
12 Anders
13 Homophone for seed
18 Spasm or
21 "No seats" sign
24 Strip of shoe leather
25 "All... easy Berlin song
26 Incisions
27 Jealous suitor in "Pagliacci"
28 Place for a home
29 Beyond
30 Bertie's "Les
31 "The butler
32 Alleges
33 Sun, to skin
36 Merry
37 Formerly
44 Imprecation
41 De Larrocha and Machuca
42 Italian navy
43 Copland
44 Artwizer
47 Klipping's
48 Idle
49 Gulf of
50 Arabian Sea
51 Ever's (attract)
52 Not so hot
53 "Once more... the best": King Henry V
54 Unclose, to Coleridge

WEATHER

Table with columns for location, high, low, and weather conditions. Locations include ALABAMA, ALGERIA, AMSTERDAM, ANKARA, ATHENS, AUCKLAND, BANGKOK, BEIRUT, BELGRADE, BIRMINGHAM, BOSTON, BRUSSELS, BUCHAREST, BUDAPEST, BUENOS AIRES, CAIRO, CASABLANCA, CHICAGO, COPENHAGEN, COSTA MESA, DAMASCUS, DUBLIN, EDINBURGH, FLORENCE, FRANKFURT, GENOVA, HELSINKI, HONG KONG, HOUSTON, ISTANBUL, JERUSALEM, LAS PALMAS, LIMA, LISBON, LONDON, LOS ANGELES.



BOOKS

LOVE EMOTION, MYTH AND METAPHOR By Robert C. Solomon, 347 pp. \$15.95. Doubleday/Anchor Press, Garden City, New York 11530.

Reviewed by Anatole Broyard

WE don't "fall" into love, Robert C. Solomon says, we "make" love. It is not a necessity, but a luxury, not a feeling, but an emotion. "Our emotions are neither primitive nor 'natural,' but rather intelligent constructions, structured by concepts and judgments that we learn in a particular culture, through which we give our experience some shape and meaning."

Love, writes Solomon, who is a professor of philosophy, is not an involuntary expression of human nature, but a decision that we make. Though it may sometimes be "spontaneous," more often we think and talk our way into love.

Love is not, for example, a mere cure for loneliness, nor "two solitudes reaching out to greet each other," as Rilke wrote for Solomon's opinion, "the idea of the isolated self is an American invention." Nor is "communication" the ultimate aim of love. What we enjoy is not exchanging information about ourselves, but sharing our identity with someone in a partial redefinition of the self, a temporary shaping of its fundamental indeterminacy.

Emotional values have been confused with moral values, until love has acquired a disciplinary or punitive tone. Intimacy is too often equated with vulnerability, a confession of shameful secrets. The real secret of intimacy, the author contends, is not confession, revelation, or communication, but privacy, the feeling of two people apart from the world and securely located in what he calls "the love-world."

Sex is not overdetermined as Freud would have it; but underdetermined: it has too few reasons rather than too many and so invites projection. Solomon quotes Uta Witt, who wrote that "We no longer have instincts; what we have instead is myth."

One of the components of love is anxiety, an extraordinary "sense of power, an awareness of risk, a kind of enthusiastic fatalism," what Nietzsche called "amor fati," love of fate, living on the edge. Sex is an occasion for love, rather than a cause of it. Speaking of equality in love, the author quotes Stendhal: "Love does not find, but creates, equals."

The decision to love is a decision to foster a set of conditions conducive to love, encouraging but not requiring the formation of mutual interdependency and shared self-identity. The temptation to give up love in order to...

Sit-Up Suit Is Dismissed

LOS ANGELES - A Superior Court judge has dismissed a \$3-million suit against the publishers of the Guinness Book of Records and the ABC network filed by a woman who won a TV competition with 13,104 sit-ups in 12 hours but didn't get mentioned in the 1981 book.

Best Sellers

Table listing best-selling books with columns for title, author, and weeks on list. Includes 'THE HOTEL NEW HAMPSHIRE' by John Irving, 'CUJO' by Stephen King, 'NOBLE HOUSE' by James Clavell.

NONFICTION

Table listing best-selling nonfiction books with columns for title, author, and weeks on list. Includes 'THE BEVERLY HILLS DIET' by Judy Meehl, 'THE LORD GOD MADE THEM' by James Herriot.

FICTION

Table listing best-selling fiction books with columns for title, author, and weeks on list. Includes 'THE HOTEL NEW HAMPSHIRE' by John Irving, 'CUJO' by Stephen King.

BRIDGE

By Alan Truscott

FOR a politician or a junkie, a "fix" may lead to suffering. For a bridge player, it always does. Events over which he has had no control have led him to believe that the gods of bridge are punishing him.

One type of fix occurs when the opponents bid to a ridiculous contract and the defense has no way to beat it. Another arises when the declarer misplays the hand successfully when the right play would have failed.

When both types occur in one deal the result may be a candidate for "Fix of the Year." On the diagrammed deal, the bidding began normally, with a weak jump to two spades over one heart and a reopening three-diamond by South. North now decided that his hand was much better than it might be, with two jacks that would help his partner and an ace, so he jumped imaginatively to four hearts.

Bridge hand diagram showing North and South hands with cards and suits. Includes a table of possible outcomes for the hand.

JUMBLE THAT SCRAMBLED WORD GAME

Jumble game instructions and word lists. Includes words like GEBOF, SYDOM, HARTOU, DENORM and a cartoon illustration of a man at a desk.

DENNIS THE MENACE



ADVERTISEMENT INTERNATIONAL FUNDS September 29, 1981. List of various international investment funds with their respective prices and performance metrics.



